

Honorable Marsha J. Pechman

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON AT SEATTLE

DORAL BANK PUERTO RICO, on Behalf of Itself
and All Others Similarly Situated,

Plaintiff,

v.

WASHINGTON MUTUAL ASSET ACCEPTANCE
CORPORATION; DAVID BECK; DIANE NOVAK;
THOMAS LEHMANN; STEPHEN FORTUNATO;
DONALD WILHELM WAMU CAPITAL
CORPORATION; MOODY'S INVESTORS
SERVICES, INC.; THE MCGRAW-HILL
COPMANIES, INC.; FIRST AMERICAN
CORPORATION and FIRST AMERICAN
EAPPRAISEIT, LLC,

Defendants.

Case No.: C09-1557 (MJP)

ECF CASE

AMENDED COMPLAINT – CLASS
ACTION – FOR VIOLATIONS OF
SECTIONS 11, 12 AND 15 OF THE
SECURITIES ACT OF 1933 AND
FOR VIOLATIONS OF
WASHINGTON STATE LAW

JURY TRIAL DEMANDED

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1 **I. SUMMARY OF THE ACTION**

2 1. This action is brought pursuant to the Securities Act of 1933 (the “Securities Act”) as
3 amended by the Private Securities Litigation Reform Act of 1995 (the “PSLRA”), 15 U.S.C. § 77a,
4 *et seq.*, by Plaintiff Doral Bank Puerto Rico (“Doral” or “Plaintiff”) on its own behalf and on behalf
5 of a class all persons and entities (the “Class”) who purchased or otherwise acquired interests in
6 specific Washington Mutual Mortgage Pass-Through Trusts (the “Issuing Trusts”), as set forth in
7 ¶37, *infra*, pursuant to and traceable to a Registration Statement and accompanying Original Basic
8 Prospectuses filed with the Securities and Exchange Commission (the “SEC”) by Washington
9 Mutual Asset Acceptance Corporation (“WMAAC”) on March 13, 2007 (SEC File No. 333-
10 141255), thereafter amended on April 9, 2007 on pre-effective Registration Statement Form S-3/A
11 (the “2007 Registration Statement”).
12

13 2. Pursuant to the Registration Statement and the subsequently-filed Prospectus
14 Supplements incorporated therein (collectively, the “Offering Documents”), Washington Mutual
15 Capital Corporation a/k/a WaMu Capital Corporation (“WCC”) underwrote and sold to Plaintiff and
16 the Class \$15.57 billion of Washington Mutual Mortgage Pass-Through Certificates (the
17 “Certificates”). The Certificates were issued in a series of thirteen (13) offerings which took place
18 between April 23, 2007 and June 26, 2007 (collectively, the “Offerings”).
19

20 3. As set forth below, the Offering Documents contained material misstatements and
21 omissions. Defendants are strictly liable for these material misstatements and omissions under
22 Sections 11, 12 and 15 of the Securities Act, 15 U.S.C. §§ 77k, 77l(a)(2) and 77o. In addition,
23 Defendants are liable under the Washington State Securities Act (“WSSA”), RCW 20.21 *et seq.*, for
24 violations of RCW 21.20.010 (2) and (3). The Complaint asserts no allegations or claims sounding
25 in fraud.
26

27 4. Plaintiff seeks redress against Defendant WMAAC, who prepared and filed the
28

1 Registration Statement and was the depositor of the underlying mortgage collateral into the Issuing
2 Trusts; Defendants David Beck (“Beck”), Diane Novak (“Novak”), Thomas Lehmann (“Lehmann”),
3 Stephen Fortunato (“Fortunato”) and Donald Wilhelm (“Wilhelm”), the officers of WMAAC and the
4 individual signatories to the Registration Statement filed by WMAAC; Defendant WCC, the
5 underwriter of the Offerings; and Defendants Moody’s Investors Services, Inc. (“Moody’s”) and
6 McGraw-Hill Companies, Inc. (“McGraw-Hill”) inclusive of its Standard & Poor’s Ratings Services
7 (“S&P”) division (collectively, the “Rating Agencies”), the Nationally Recognized Statistical
8 Ratings Organizations (“NRSRO”) that were engaged to rate the Certificates.¹ Plaintiff also seeks
9 redress against First American Corporation (“First American”) and First American eAppraiseIT,
10 LLC (“eAppraiseIT”), appraisers of the properties that collateralized the mortgages underlying the
11 Certificates.
12

13
14 5. WMAAC, WMB and WCC, together with their affiliates and subsidiaries, are
15 collectively referred to herein as “WaMu.”²

16 6. This action arises from the role of WaMu in originating or acquiring and then
17 converting approximately 26,108 mortgage loans, mainly sub-prime first-lien hybrid adjustable rate
18 loans with an initial fixed-rate period, into \$15.57 billion of purportedly “investment grade”
19 mortgage-backed securities (“MBS”), which were then sold to Plaintiff and the Class in a series of
20

21 ¹ Washington Mutual Bank, the sponsor/seller for each of the Offerings, as well as the
22 originator and servicer for all of the underlying mortgage loan collateral for each of the Offerings is
23 not named as a Defendant herein, solely due to the fact that on September 25, 2008 the Office of
24 Thrift Supervision seized Washington Mutual Bank and placed it into the receivership of the Federal
Deposit Insurance Corporation (“FDIC”), which sold Washington Mutual Bank’s assets to JPMorgan
Chase & Co.

25 ² Washington Mutual Mortgage Securities Corporation, a limited purpose subsidiary of
26 Defendant WMB, served as the sponsor/seller of the mortgage loan collateral for certain WaMu
27 Offerings. WMB and WMMSC performed identical functions for the purposes of the Offerings
28 complained of herein and as such, for the purposes of the Complaint, shall be referred to collectively
as “WMB.”

thirteen (13) public Offerings made pursuant to the Offering Documents. The value of the Certificates was directly tied to the value of the underlying mortgages, as well as the repayment of the underlying mortgages by borrowers since the principal and interest payments due to investors were secured and derived from borrower payments.³

7. WaMu and the Ratings Agencies controlled almost every aspect of the creation and issuance of the Certificates – from origination and pooling of the underlying mortgage loans, through the securitization of the loans and the sale of the Certificates representing interests in the loans to Plaintiff and the Class. All of the mortgage loans underlying the Certificates were originated by WMB or otherwise acquired by WMB from various “correspondent” mortgage lenders throughout the Country. WMB formed WMAAC, a special purpose entity, for the sole purpose of acquiring mortgage loans from WMB and transferring the mortgage loans into the Issuing Trusts, which, in turn, issued the Certificates. The Certificates were then purchased by WCC, the underwriter, from the Issuing Trusts and sold to investors pursuant to the Offering Documents after being structured by WaMu and the Ratings Agencies. Once the Certificates were issued and sold to investors, WMB’s servicing division collected the mortgage payments submitted by borrowers and deposited the funds into the Issuing Trusts pursuant to the terms of each Issuing Trust’s Indenture. The trustee that oversees the administration of each Issuing Trust periodically distributes payments to investors.

8. In order for an Offering of Certificates to be marketable, a large proportion of the Certificates in the Offering had to be assigned the highest investment grade rating by at least two

³ As the original borrowers on each of the underlying mortgage loans paid their mortgages, distributions were made to investors through the Issuing Trusts in accordance with the terms of the Offering Documents governing the issuance of the Certificates. If borrowers failed to pay back their mortgages, defaulted, or were forced into foreclosure, the resulting losses flowed to the Certificate investors. As set forth in the Prospectus Supplements, the Certificates were divided into classes, or “tranches,” reflecting different priorities for repayment, exposure to risk of default, and interest payments.

1 rating agencies. The reason is simple. Without high investment grade ratings, the Certificates could
2 not be purchased by WaMu's principal clientele – institutional investors such as pension funds and
3 insurance companies, because such investors' purchases are often restricted to securities rated above
4 certain minimum allowable credit ratings.

5 9. For this reason, WaMu did not leave the ratings assigned to the Certificates to chance.
6 In fact, WaMu ensured such ratings were assigned by engaging firms such as Moody's and S&P to
7 not only rate the Certificates at issuance, but also to directly participate in the securitization process.
8 Undisclosed to Plaintiff and the Class, the Rating Agencies played a significant role in determining
9 which mortgage loans would be included in the mortgage pools underlying the Certificates and in
10 structuring the Offerings – *i.e.*, determining the number of classes, or tranches, each Offering would
11 include, and the amount and type of investment protection or "credit enhancement" built into the
12 Certificate structure.
13

14 10. Also, WaMu did not disclose to Plaintiff and the Class that WaMu engaged the
15 Rating Agencies by way of "ratings shopping" – the practice of having the Rating Agencies provide
16 proposed ratings on the Certificates as part of their bid for the engagements.⁴
17

18 11. As a result, a substantial portion of the Certificates in each Offering were assigned the
19 highest investment grade rating possible by the Rating Agencies at the time of their issuance – "Aaa"
20 for Moody's and "AAA" for S&P (hereinafter collectively referred to as "AAA.") Overall, the
21 Rating Agencies assigned AAA ratings to over 93%, or \$14.59 billion, of the Certificates. In fact,
22 none of the Certificates, at the time of their Offering, were assigned ratings below investment grade
23 – "Ba1" and below for Moody's and "BB+" and below for S&P.
24

25
26 ⁴ As former head of mortgage-backed securities at Moody's, Brian Clarkson stated in an
27 October 17, 2008 article in *Financial Times*, that in structured finance, including mortgage backed
28 securities, "[y]ou start with a rating and build a deal around a rating."

1 12. The Certificates' ratings were material to investors because of the purchase
2 restrictions stated above, as well as the fact that, according to the Offering Documents, the ratings
3 were a reflection of the risk or probability of default on the mortgages underlying the Certificates.

4 13. Soon after the Certificates were issued, as a result of massive increases in borrower
5 delinquency, foreclosures, repossessions and bankruptcies in the Certificates' underlying mortgage
6 collateral, the value of the Certificates collapsed. Plaintiff and the Class have suffered realized
7 losses of hundreds of millions of dollars as the value of the Certificates has plummeted. Moreover,
8 the likelihood of the value of the Certificates ever returning to par value is severely diminished by
9 the fact that *over 60%* of the mortgage loans underlying the Certificates – the source of income for
10 Certificate investors – are in some type of delinquency or default, or are subject to foreclosure or
11 bankruptcy. The delinquency and default rates on the Certificates' underlying mortgages – arising
12 from, among other things, faulty origination practices – has triggered unprecedented downgrades of
13 the Certificates by the Rating Agencies. Moody's and S&P have downgraded over 99.9%, or \$15.56
14 billion, of the Certificates issued, of which 100% are now rated below investment grade. Further,
15 over 99.9%, or \$14.58 billion, of the \$14.59 billion of Certificates initially awarded AAA ratings
16 have been downgraded to below investment grade. As of the date of this filing, over 99.9% of the
17 Certificates are rated speculative junk bond grade.

18 14. Since the purchasers of the Certificates depended on the quality of the underlying
19 mortgage collateral for their financial returns, the descriptions of the loan origination practices
20 contained in the Offering Documents were highly material to them. The Offering Documents
21 indicated that the underlying mortgage loans were originated pursuant to origination guidelines that
22 included an examination of borrower creditworthiness and an accurate, independent appraisal of the
23 property subject to each mortgage loan.

24 15. The loan origination guidelines detailed in the Offering Documents contained
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1 material misstatements and omissions because, as came to light only well after issuance of the
2 Certificates, the principal mortgage loan originator, WMB, systematically disregarded the Guidelines
3 in a number of ways. The materiality of these misstatements and omissions is reflected in the fact
4 that the Rating Agencies, in downgrading the Certificates from the highest investment grade to junk
5 bond grade, specifically attributed the downgrades to “aggressive underwriting” in the origination of
6 the underlying mortgage loans.
7

8 16. Compliance with the stated loan underwriting guidelines was highly material to
9 Certificate investors, who were dependent on the creditworthiness of the borrowers for interest and
10 principal payments throughout the lifespan of the Certificates. In contrast, WaMu had no such
11 similar financial interest, since their compensation was earned once the Offerings were completed.
12 For this reason, among others, WaMu, specifically WCC, conducted inadequate due diligence with
13 respect to whether the underlying mortgage loans were originated in conformity with the
14 underwriting guidelines stated in the Offering Documents – ignoring deficient lending
15 documentation and inflated appraisals of the properties collateralizing the mortgages underlying the
16 Certificates. In fact, WCC failed to conduct any of its own due diligence of the underlying mortgage
17 loans at the underwriting stage of the Offerings. Instead, WCC relied on wholly inadequate reviews
18 of the underlying mortgages, conducted by third-party firms, who were engaged by WCC to examine
19 small samples – 5-7% at most – of the mortgage loans in WMB’s loan portfolio.⁵ WCC’s “due
20
21

22
23 ⁵ WaMu contracted out the inspection of loans for compliance with the underwriting
24 guidelines to outside third-party appraisal firms – *i.e.*, Clayton Holdings, Inc. (“Clayton”) and The
25 Bohan Group (“Bohan”) – and then conducted limited oversight of these subcontractors’ activities.
26 As disclosed as part of an ongoing investigation of investment banking and mortgage-backed
27 securities issuer misconduct in underwriting mortgage-backed securities being conducted by the
28 New York Attorney General (the “NYAG”), Clayton and Bohan routinely provided issuers with
detailed reports of loans non-compliant with underwriting guidelines, but WaMu routinely overrode
and/or ignored these reports. Further, Bohan’s President stated that, by the time the Offerings of the
Certificates took place, issuers were requiring a review of only 5-7% of the entire loan pools.

1 diligence” was limited, inadequate and defective.

2 17. The Offering Documents fail to disclose that, Rating Agencies’ models for assigning
3 rates were woefully outdated. It was only disclosed well after the issuance of the Certificates, that
4 S&P’s models had not been materially updated since 1999 and Moody’s models had not been
5 materially updated since 2002. The Rating Agencies’ models employed obsolete statistical
6 assumptions based on the performance of mortgage loans and underwriting standards for mortgage
7 loans issued prior to 2003. However, the Certificates’ underlying mortgage collateral includes a
8 substantial proportion of certain types of loans which only began to be originated *en masse* from
9 2003 moving forward – *i.e.*, sub-prime and Alt-A loans, adjustable rate mortgage loans (“ARMs”)
10 and non-traditional or hybrid-ARMs (*i.e.*, negative amortization loans or interest-only loans) – all
11 issued with limited borrower documentation or employment verification.⁶ Thus, the Rating
12 Agencies’ models could in no way predict the performance of the Certificates’ underlying mortgage
13 collateral.
14

15
16 18. The Offering Documents also failed to disclose material financial conflicts of interest
17 between the Rating Agencies and WaMu, including WaMu’s engagement of the Rating Agencies
18 through ratings shopping. These conflicts of interest began to be disclosed to the public in a report
19 released by the SEC in July 2008 (the “July 2008 SEC Report”), after a year-long investigation into
20 all ratings agency activities relating to the issuance of mortgage-backed securities in the period
21 spanning 2005 through 2007. The July 2008 SEC Report disclosed that the Rating Agencies were
22 typically chosen by way of ratings shopping whereby the Ratings Agency that was ultimately
23

24
25 ⁶ As discussed below, originations of non-traditional adjustable mortgages, interest only and
26 negative amortization loans increased dramatically between 2005 and 2007. These types of loans
27 presented the greatest potential for “payment shock” to the borrower since they both provide small
28 initial fixed rates for a limited period of time which then reset thereafter to much higher monthly
payment amounts.

1 engaged was the one which provided the most profitable rating to the investment bank while
2 “bidding” for the engagement. The July 2008 SEC Report also explained that the Rating Agencies
3 were incentivized, due to the highly profitable nature of these mortgage-backed securities
4 engagements, to not update their models, as doing so would render the Ratings Agencies unable to
5 provide to the investment bank the necessary credit enhancement and rating structure for the
6 mortgage securitization.
7

8 19. The conflicts of interest which plagued the relationship between mortgage-backed
9 securities issuers and the Rating Agencies were further discussed in a report issued by the
10 Congressional Oversight Panel in January 2009 (the “January 2009 Congressional Oversight Panel
11 Report”) which stated, in no uncertain terms, that the conflicts of interest arising out of the fee-based
12 relationship between mortgage-backed securities issuers and the Rating Agencies and the use of
13 inadequate and incorrect ratings models played a key role in the catastrophic decline in the value of
14 mortgage-backed securities, resulting in billions of dollars of investor losses.
15

16 20. As set forth herein, the Offering Documents contained material misstatements and
17 omissions of material facts in violation of Sections 11 and 12 of the Securities Act, including the
18 failure to disclose that: (i) the mortgage loans underlying the Certificates were not originated in
19 accordance with the loan underwriting guidelines stated in either the Registration Statement or the
20 Prospectus Supplements, based on WaMu having failed to conduct either a meaningful assessment
21 of the borrowers’ creditworthiness or an accurate appraisal of the mortgaged properties;
22 (ii) WMAAC and WCC failed to conduct adequate, and in most cases any, due diligence with
23 respect to the mortgage loan originators’ compliance with the loan underwriting guidelines stated in
24 the Offering Documents; (iii) the appraisals on many of the properties collateralizing the mortgages
25 underlying the Certificates were inflated; (iv) there were material undisclosed conflicts of interest
26 between WaMu and the Rating Agencies, including those reflected in undisclosed ratings shopping
27
28

1 practices, which incentivized the Rating Agencies to inflate Certificate ratings to maintain business
2 with WaMu; and (v) the amount of credit enhancement provided to the Certificates was inadequate
3 to support AAA and investment grade ratings because those amounts were determined by the
4 outdated statistical models.

5 21. As a result of these material misstatements and omissions, Plaintiff and the Class
6 have suffered damages for which named Defendants are liable pursuant to Sections 11, 12 and 15 of
7 the Securities Act and the WSSA.

8 22. In addition, as described fully below, First American and eAppraiseIT allowed
9 appraisals performed by eAppraiseIT to be improperly influenced by WaMu allowing for defective,
10 inflated valuations of the mortgage properties underlying the Certificates, thereby, among other
11 things, artificially inflating loan-to-value (“LTV”) ratios reported in the Offering Documents. As a
12 result, First American and eAppraiseIT have caused Plaintiff and the Class to suffer damages for
13 which these entities are liable under Section 11 of the Securities Act and the WSSA.

14
15
16 **II. JURISDICTION AND VENUE**

17 23. Claims alleged herein arise under Sections 11, 12(a)(2) and 15 of the Securities Act,
18 15 U.S.C. §§ 77k, 77l(a)(2) and 77o and the WSSA. Jurisdiction is conferred by Section 22 of the
19 Securities Act, and venue is proper pursuant to Section 22 of the Securities Act. The Court has
20 supplemental jurisdiction over the Plaintiff's claims under the WSSA pursuant to 28 U.S.C. § 1367.

21 24. The violations of law complained of herein, including, but not limited to, the
22 dissemination of the Offering Documents containing material misstatements and omissions, occurred
23 in this District. All of the Defendants named herein, as well as their affiliates and subsidiaries,
24 conduct or conducted business in this District.

III. PARTIES AND RELEVANT NON-PARTIES

25. Plaintiff Doral is a public diversified financial services company with offices located in Puerto Rico. As reflected in the certification annexed hereto, Doral purchased the following Certificates pursuant and traceable to the Registration Statement and subsequent Prospectus Supplements and has been damaged thereby:

Certificates Purchased	Amount of Units Purchased	Price Paid (Per Unit)
WaMu Mortgage-Pass Through Certificates, Series 2007-OA4	87,911,350	\$1.07
WaMu Mortgage-Pass Through Certificates, Series 2007-OA5	66,050,534	\$1.05
WaMu Mortgage-Pass Through Certificates, WMALT Series 2007-OA5	62,402,082	\$1.11

26. Defendant WMAAC, at all relevant times, was a wholly-owned subsidiary of WMB and was principally located at 1301 Second Avenue, WMC 3501A, Seattle, Washington 98101. WMAAC filed the Registration Statement and Prospectus Supplements with the SEC in connection with the Offerings and served as the depositor of the Certificate collateral with the Issuing Trust in each of the Offerings. The role of WMAAC, a special purpose entity, was to purchase the mortgage loans from the WMB and then assign the mortgage loans and all of the rights and interest under the mortgage loan purchase agreement to the trustee for the benefit of the holders of Certificates.

27. WMB acted as the sponsor/seller for the Certificates issued pursuant to the Registration Statement. All of the mortgage loans underlying the Certificates were originated pursuant to the stated underwriting guidelines of WMB. WMB also serviced the underlying mortgage loans. The principal offices for WMB's lending operations during the relevant period were located at 1301 Second Avenue, WMC 3501A, Seattle, Washington 98101. As set forth in the Registration Statement, once originated or acquired by WMB, WMB would convey mortgages to a

special purpose entity, WMAAC, which then deposited the mortgage collateral into the Issuing Trusts. The Issuing Trusts then issued the Certificates supported by the cash flows from the mortgages and were secured by the mortgage assets.

28. The FDIC, is a Relevant Non-party to this Action. The FDIC is an independent agency of the U.S. Government. The FDIC is organized and existing pursuant to the Federal Deposit Insurance Act, 12 U.S.C. §1811, *et seq.*, with its principle place of business located in Washington, D.C. On September 25, 2008 the U.S. Office of Thrift Supervision seized WMB and appointed FDIC as receiver of WMB pursuant to 12 U.S.C. §1821(c). Pursuant to 12 U.S.C. §1821(c)(3)(A)(ii), the FDIC accepted appointment as receiver.

29. Defendant WMAAC filed the 2007 Registration Statement and accompanying Initial Basic Prospectuses with the SEC on Form S-3, as subsequently amended on Form S-3/A as follows:

<u>Date Filed</u>	<u>Form Type</u>	<u>Amount Registered</u>
March 13, 2007	S-3	\$ 1,000,000.00
April 9, 2007	S-3/A	\$ 400,000,000,000.00

30. Defendant David Beck ("Beck") was, during the relevant period, a Director, the President and Principal Executive Officer of WMAAC. Beck signed the March 13, 2007 Registration Statement Form S-3 and the April 9, 2007, Registration Statement Form S-3/A pursuant to which the Certificates were offered, either on behalf of himself or by the authorized Attorney-In-Fact.

31. Defendant Diane Novak ("Novak") was, during the relevant period, a Director of WMAAC. Novak signed the March 13, 2007 Registration Statement Form S-3 and the April 9, 2007, Registration Statement Form S-3/A pursuant to which the Certificates were offered, either on behalf of herself or by the authorized Attorney-In-Fact.

32. Defendant Thomas Lehmann ("Lehmann") was, during the relevant period, the Director and President (Principal Executive Officer) of WMAAC. Lehmann signed the, March 13,

1 2007 Registration Statement Form S-3 and the April 9, 2007, Registration Statement Form S-3/A
2 pursuant to which the Certificates were offered, either on behalf of himself or by the authorized
3 Attorney-In-Fact.

4 33. Defendant Stephen Fortunato (“Fortunato”) was, during the relevant period, the Chief
5 Financial Officer (Principal Financial Officer) of WMAAC. Fortunato signed the March 13, 2007
6 Registration Statement Form S-3 and the April 9, 2007, Registration Statement Form S-3/A pursuant
7 to which the Certificates were offered, either on behalf of himself or by the authorized Attorney-In-
8 Fact.
9

10 34. Defendant Donald Wilhelm (“Wilhelm”) was, at all times during the relevant period,
11 the Controller (Principal Accounting Officer) of WMAAC. Wilhelm signed the March 13, 2007
12 Registration Statement Form S-3 and the April 9, 2007, Registration Statement Form S-3/A pursuant
13 to which the Certificates were offered, either on behalf of himself or by the authorized Attorney-In-
14 Fact.
15

16 35. The Defendants identified in ¶¶30-34 are referred to herein as the “Individual
17 Defendants.” The Individual Defendants functioned as directors of the Issuing Trusts as they were
18 officers and/or directors of WMAAC and signed the Registration Statement for the Certificates
19 issued by the Issuing Trusts.
20

21 36. The Individual Defendants participated with and/or conspired with the remaining
22 Defendants in the wrongful acts and course of conduct, or otherwise caused the damages and injuries
23 claimed herein, and are responsible in some manner for the acts, occurrences and events alleged in
24 this Complaint.

25 37. Defendant WCC was, at all relevant times, an SEC-registered broker-dealer
26 principally located at 1301 Second Avenue, WMC 3501A, Seattle, Washington 98101. WCC was a
27 wholly-owned subsidiary of Washington Mutual, Inc. (“WMI”). Defendant WCC served as the
28

underwriter for all of the Certificate Offerings and was intimately involved in all of the Offerings. WCC failed to perform the requisite level of due diligence not merely once, but at all times in connection with all of the Offerings complained of herein. The Prospectus Supplements disseminated in connection with each of the Offerings contained the same material misstatements and omissions of material fact relating to the guidelines employed in originating and securitizing the underlying mortgage loans. WCC abdicated its duty to conduct due diligence on the underlying mortgage loans, relying instead on the cursory review conducted by WMB and third-party contractors, including Bohan and Clayton. WCC was, during the relevant period, one of the leading underwriters of mortgage-backed securities in the United States. WCC served as the underwriter in the sale of the Certificates and assisted in drafting and disseminating the Offering Documents for the following Offerings of Certificates issued pursuant to the Registration Statement:

Trust	Approximate Principal Amount	Approx. Offering Date	Underwriter(s)	Depositor/Issuer	Sponsor
WaMu Mortgage Pass-Through Certificates, Series 2007 - HY5	\$1,619,028,100	April 23, 2007	WaMu Capital Corporation	WaMu Asset Acceptance Corporation	Washington Mutual Bank
WaMu Mortgage Pass-Through Certificates, Series 2007 - HY6	\$3,417,433,100	May 21, 2007	WaMu Capital Corporation	WaMu Asset Acceptance Corporation	Washington Mutual Bank
WaMu Mortgage Pass-Through Certificates, Series 2007 - HY7	\$2,795,936,100	June 21, 2007	WaMu Capital Corporation	WaMu Asset Acceptance Corporation	Washington Mutual Bank
WaMu Mortgage Pass-Through Certificates, Series 2007 - OA4	\$1,600,429,100	April 24, 2007	WaMu Capital Corporation	WaMu Asset Acceptance Corporation	Washington Mutual Bank
WaMu Mortgage Pass-Through Certificates, Series 2007 - OA5	\$1,443,025,100	May 22, 2007	WaMu Capital Corporation	WaMu Asset Acceptance Corporation	Washington Mutual Bank

1	WaMu Mortgage					
2	Pass-Through					
3	Certificates, Series	\$1,420,586,100	June 22, 2007	WaMu Capital	WaMu Asset	Washington
4	2007 – OA6			Corporation	Acceptance	Mutual Bank
5					Corporation	
6	WaMu Mortgage					
7	Pass-Through					
8	Certificates,	\$467,571,100	May 23, 2007	WaMu Capital	WaMu Asset	Washington
9	WMALT Series			Corporation	Acceptance	Mutual Bank
10	2007 – OA4				Corporation	
11						
12	WaMu Mortgage					
13	Pass-Through					
14	Certificates,	\$578,412,100	June 25, 2007	WaMu Capital	WaMu Asset	Washington
15	WMALT Series			Corporation	Acceptance	Mutual Bank
16	2007 – OA4				Corporation	
17						
18	WaMu Mortgage					
19	Pass-Through					
20	Certificates,	\$513,969,100	May 10, 2007	WaMu Capital	WaMu Asset	Washington
21	WMALT Series			Corporation	Acceptance	Mutual Bank
22	2007 – OC1				Corporation	
23						
24	WaMu Mortgage					
25	Pass-Through					
26	Certificates,	\$473,070,100	June 25, 2007	WaMu Capital	WaMu Asset	Washington
27	WMALT Series			Corporation	Acceptance	Mutual Bank
28	2007 – OC2				Corporation	
	WaMu Mortgage					
	Pass-Through					
	Certificates,	\$459,533,342	April 24, 2007	WaMu Capital	WaMu Asset	Washington
	WMALT Series			Corporation	Acceptance	Mutual Bank
	2007 – 1				Corporation	
	WaMu Mortgage					
	Pass-Through					
	Certificates,	\$390,678,089	May 23, 2007	WaMu Capital	WaMu Asset	Washington
	WMALT Series			Corporation	Acceptance	Mutual Bank
	2007 – 2				Corporation	
	WaMu Mortgage					
	Pass-Through					
	Certificates,	\$385,977,600	June 26, 2007	WaMu Capital	WaMu Asset	Washington
	WMALT Series			Corporation	Acceptance	Mutual Bank
	2007 – 3				Corporation	

38. Each of the Issuing Trusts for the Offerings was a common law trust formed for the sole purpose of holding and issuing the Certificates. Each of the Issuing Trusts issued hundreds of millions of dollars worth of Certificates pursuant to a Prospectus Supplement, incorporated by reference into the Registration Statement, which listed numerous classes of offered Certificates.

1 39. Defendant Washington Mutual, Inc. was, at all relevant times located at 1301 Second
2 Avenue, WMC 3501A, Seattle, Washington 98101 and served as the parent company to the
3 sponsor/seller, WMB.

4 40. Defendant Moody's is a subsidiary of Moody's Corporation and is principally located
5 at 250 Greenwich Street, New York, New York 10007. Moody's provides credit ratings, risk
6 evaluation, investment research and data to investors. Moody's worked with WaMu in structuring
7 the securitization transactions related to the Certificates and assigning the credit ratings to the
8 Certificates, published in the Prospectus Supplements.

9 41. S&P was, at all relevant times, a New York corporation with its principal place of
10 business located at 1221 Avenue of the Americas, New York, New York 10020. S&P is a division
11 of Defendant McGraw-Hill which provides credit ratings, risk evaluation, investment research and
12 data to investors. S&P worked with WaMu in structuring the securitization transactions related to
13 the Certificates and assigning the credit ratings to the Certificates, published in the Prospectus
14 Supplements.

15 42. Defendant First American Corporation is a California Corporation and has its
16 executive offices at 1 First American Way, Santa Ana, California 92707-5913. First American,
17 through its subsidiaries, provides business information and related products and services.

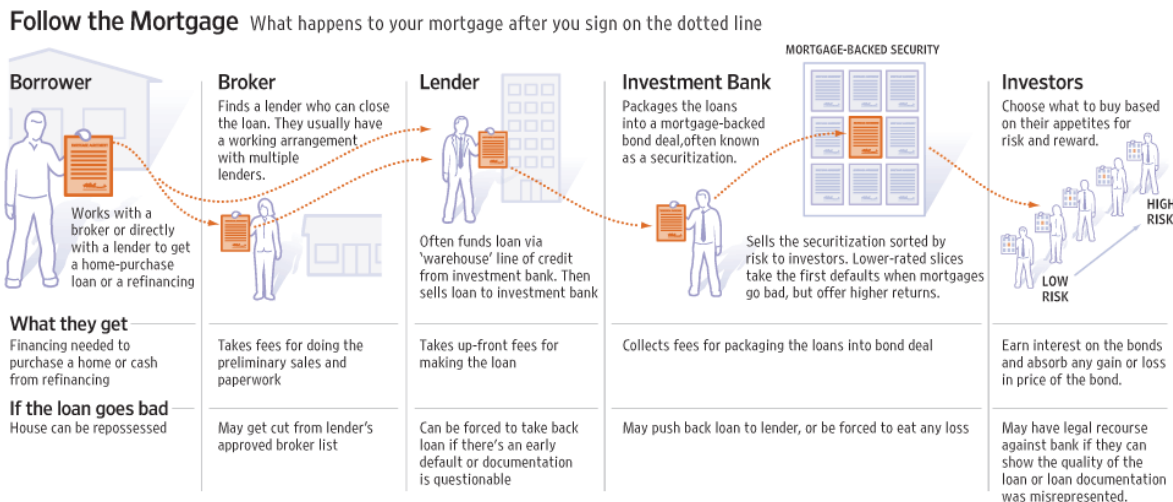
18 43. Defendant First American eAppraiseIT, LLC is a wholly-owned subsidiary of First
19 American and has its executive headquarters at 12395 First American Way, Poway, California
20 92064. eAppraiseIT provides real estate appraisal services to savings and loans, banks, and other
21 lending professionals. eAppraiseIT provided appraisals for the mortgages underlying the
22 Certificates.

23 44. First American and eAppraiseIT are collectively referred to herein as the "Appraiser
24 Defendants."

IV. BACKGROUND

A. The Proliferation of Subprime Mortgage-Backed Securities

45. As illustrated below, in a mortgage securitization, mortgage loans are acquired, pooled together, and then sold to investors, who acquire rights in the income flowing from the mortgage pools.



Source: WSJ Reporting

46. When mortgage borrowers make interest and principal payments as required by the underlying mortgages, the resulting cash flow is distributed to the holders of the mortgage-backed securities in order of priority based on the specific tranche held by the MBS investor. The highest tranche (also referred to as the senior tranche) is first to receive its share of the mortgage proceeds and is also the last to absorb any losses should mortgage-borrowers become delinquent or default on their mortgages.

47. Traditionally, an originator of a mortgage loan was economically vested in establishing the creditworthiness of the borrower and the true value of the underlying property by an appraisal before issuing the mortgage loans. The securitization of mortgage loans, however, fundamentally shifts the risk of loss from the mortgage loan originator to the investor who purchases an interest in the securitized pool of loans. Thus, in securitizations, the originator no longer has the

1 same economic interest in establishing borrower creditworthiness or a fair appraisal value of the
2 property in the loan origination process.

3 48. In the 1980s and 1990s, securitizations were generally only carried out by
4 Government Sponsored Enterprises, *e.g.*, the Federal National Mortgage Association (“Fannie Mae”)
5 and the Federal Home Loan Mortgage Corporation (“Freddie Mac”), which would purchase loans
6 from originators. Investors in Government Sponsored Enterprise securities were provided
7 protections because the underlying loans were originated pursuant to strict underwriting guidelines.
8

9 49. Between 2001 and 2006, however, there was dramatic growth in mortgage loan
10 securitizations by entities not sponsored by the government, for which there were no minimum
11 underwriting standards. This led to a commensurate increase in securitizations of subprime
12 mortgage loans.
13

14 50. A subprime mortgage loan is a mortgage loan to a borrower with substandard credit.
15 In the decade since the inception of the subprime mortgage loan such loans have flourished as the
16 vehicle by which lenders funded loans to borrowers who, for various reasons ranging from poor
17 credit histories to unstable income levels, would not generally qualify for traditional or prime rate
18 loans.

19 51. To compensate for the increased risk of making subprime loans, the upfront and
20 continuing costs of a subprime loan are higher than that of a traditional loan. For example, the
21 majority of subprime loans tend to be ARMS or hybrid-ARMS. Both shift the risk of rate
22 fluctuation from the lender to the borrower.
23

24 52. Many borrowers obtain ARMs under the impression that they will be able to
25 refinance at favorable terms before the ARMs reset at a higher interest rate. In the subprime
26 mortgage context, ARMs create significant and widespread mortgage default risks because of the
27 likelihood that subprime borrowers will be unable to make their mortgage payments after a rate
28

1 adjustment. According to a study by First American CoreLogic, in 2007 and 2008, “trillions of
2 dollars of adjustable-rate mortgages [had] their payments reset.” It is estimated that well over \$2
3 trillion in ARMs were originated from 2004 to 2006.

4 **B. WaMu’s Origination and Securitization Operations**

5 53. Beginning in 2001 and extending into 2007, WMB experienced exponential growth in
6 its subprime mortgage loan origination business.

7 54. During this timeframe, WaMu purchased and securitized a significant portion of the
8 subprime mortgage loans originated or acquired by WMB into Certificates.

9 55. WaMu derived profit from the sale of the Certificates for a price in excess of the
10 amount paid for the underlying mortgage loans. The goal for WaMu was to sell the Certificates for a
11 price above the par value of \$1.00 per unit.
12

13 56. Certificates were issued through the Issuing Trusts designated with a “shelf” name –
14 specifically, “WaMu Mortgage Pass-Through Certificates Trust.” WaMu completed thirteen (13)
15 Certificate Offerings pursuant to the Offering Documents, between April 23, 2007 and June 26,
16 2007, which are all the subject of this action.
17

18 57. For Certificates to be marketable to their target investors, *e.g.*, pension funds,
19 approximately 80% of the Certificates had to have an AAA rating. In order to ensure that a
20 substantial portion of the Certificates were awarded the AAA ratings, WaMu had the Rating
21 Agencies compete for the engagement by including their proposed ratings as part of their bid for the
22 Certificate ratings engagement. This ratings shopping process resulted in *over 93%* of the
23 Certificates being assigned the AAA rating. Such ratings shopping began to be meaningfully
24 disclosed to the public in July 2008.
25

26 58. In addition to engaging in ratings shopping, WaMu made sure the Rating Agencies
27 participated in all aspects of the formation and structuring of the Certificates in order to guarantee a
28

1 sufficient proportion of the Certificates would be assigned an AAA rating.

2 **1. Origination of Mortgage Loans By WMB**

3 59. The underlying mortgages of the Certificates in the thirteen (13) Offerings
4 complained of herein was purportedly originated pursuant to the Guidelines of WMB, either by
5 WMB itself or various correspondent lenders of WMB.
6

7 60. First, WaMu originated loans through WMB. In 2000, WMB was originating \$600
8 million of mortgage loans per month, or just over \$7.0 billion for the year. In stark contrast, by
9 2005, WMB originated over \$19.0 billion in mortgage loans each month, translating into over
10 \$229.0 billion per year. All of the loans originated by WMB were acquired by WMB pursuant to
11 Purchase and Sale Agreements. A computerized model priced the loans on a loan-by-loan basis.
12 Once the loans were acquired by WMB, they were entered into WMB's computerized subprime loan
13 "warehouse" database, which recorded the characteristics of each loan WMB acquired, including,
14 among other things, the loan amount, the loan type, borrower credit information and appraisal
15 information.
16

17 61. WaMu's second method of acquiring mortgage loans for securitization was through
18 agreements entered into with small local and regional lenders, known as "correspondent" lenders,
19 dispersed throughout the U.S.
20

21 **2. WCC's "Due Diligence" Review**

22 62. Once WaMu had acquired possession of the mortgage loan collateral from WMB and
23 prior to securitization, a process of cursory "due diligence" on the mortgage loans was conducted by
24 WCC. The review's ostensible purpose was to determine whether the loans contained the requisite
25 legal documentation, were based on an independent appraisal and were originated in accordance
26 with WMB's loan underwriting guidelines, which were detailed in the Offering Documents. The
27 due diligence review that was conducted on the mortgage collateral was not specific to any
28

1 securitized pool of mortgage loans. Rather, the due diligence was performed periodically performed
2 on a small sample (5-7% at most) of WMB's entire "warehouse" of mortgage loans.

3 63. WCC contracted its due diligence work to outside firms – namely, Bohan and
4 Clayton. WaMu's Due Diligence Team was responsible for overseeing the work. The outside firms
5 were supposed to examine the loans for conformity with WMB's guidelines, as detailed in the
6 Offering Documents. Each loan reviewed was rated as category "1," "2" or "3". Category "3" loans
7 were defective and recommended for exclusion from securitization. However, WaMu's Due
8 Diligence Team exercised its discretion and rarely excluded category "3" rated loans. WaMu was
9 incentivized to hang on to category "3" loans because if WaMu rejected any significant portion of
10 the loans, the size of the securitization, and thus the size of the fees derived from the securitization
11 by WaMu, would decrease significantly. In addition, the defective loans would remain on WaMu's
12 mortgage ledger, subjecting WaMu to the risk of default or foreclosure.
13
14

15 64. Rather than conduct their own due diligence, WCC abdicated their duty to conduct
16 any examination of the underlying collateral, and instead relied on the cursory due diligence
17 conducted by third-party firms.

18 **3. The Roles of WCC and the Ratings Agencies in the Securitization**
19 **of Subprime Loans and the Structuring of the Certificates**

20 65. WCC was established in 2002 by WMB for the purpose of providing WaMu with
21 direct access to investors. Since then, WaMu has been going directly to Wall Street with its products
22 securitized through WCC. In 2005, WCC was officially made a wholly-owned subsidiary of WMB.
23 WCC enabled WaMu to issue billions in mortgage-backed securities directly, without obtaining the
24 assistance of outside investment bankers.
25

26 66. The purpose of WCC, which was made up of a group of WMB employees working
27 on the mortgage-backed securities sales desk, was to assess the demand for certain securities from
28

1 the clients of the investment bank and to assist WaMu in structuring the Offerings of Certificates.
2 This “pre-sell” of Certificates was critical for the quick sale of an Offering of Certificates.
3 Therefore, WCC’s role in assessing market demand and assuring WaMu that sale of the Certificates
4 to investors would be completed immediately after securitization was key to the Offerings’ success.

5
6 **C. The Appraisal Defendants Inflated Property Valuations**

7 67. Independent and accurate real estate appraisals are essential to the mortgage lending
8 and securitization process, providing borrowers, lenders and investors in mortgage-backed securities
9 with supposedly independent and accurate assessments of the value of the mortgage properties.
10 Accurate appraisals ensure that a residential mortgage or home equity loan is not under-
11 collateralized, thereby protecting borrowers from financially over-extending themselves and
12 protecting lenders and investors in mortgage-backed securities in the event a borrower defaults on a
13 loan. Importantly, accurate appraisals also provide investors with a basis for assessing the price and
14 risk of mortgage-backed securities.
15

16 68. An accurate appraisal is critical in determining the loan-to-value (“LTV”) ratio for a
17 mortgaged property. The LTV ratio is a financial metric that Wall Street analysts and investors
18 commonly use when evaluating the price and risk of mortgage-backed securities. The LTV ratio is
19 directly dependent on the appraised value of a property because the LTV ratio is simply the
20 mortgage amount divided by the appraised value of the property, expressed as a percentage. For
21 example, if a borrower seeks to borrow \$350,000 to purchase a house worth \$400,000, the LTV ratio
22 is \$350,000/\$400,000, or 88 percent. If, however, the appraised value of the house is artificially
23 increased to \$450,000, the LTV ratio drops to just 78 percent (\$350,000/\$450,000).
24

25 69. From the perspective of a purchaser of mortgage-backed securities, a high LTV ratio
26 is riskier because borrowers with small equity positions in their property have less to lose if the
27 borrowers default on the loan. In addition, particularly when home values are declining, a high LTV
28

1 ratio creates the heightened risk that, should the borrower default, the amount of the outstanding loan
2 may exceed the value of the property.

3 70. The Registration Statement and Prospectus Supplements state that the property
4 collateralizing the mortgages has been subjected to real-estate appraisals performed by independent,
5 objective, and unbiased appraisers, pursuant to the stringent standards of the Uniform Standards of
6 Professional Appraisal Practice (“USPAP”). USPAP provides a minimum set of quality control
7 standards for the conduct of appraisal in the U.S. As the Office of Thrift Supervision regulations
8 emphasize:
9

10 The soundness of a savings association’s mortgage loans and real estate investments .
11 . . . depends to a great extent upon the adequacy of the loan underwriting used to
12 support these transactions. ***An appraisal standard is one of several critical***
13 ***components of a sound underwriting policy because appraisal reports contain***
14 ***estimates of the value of collateral held or assets owned.***

12 C.F.R. § 564.8(a) (emphasis in original).

15 71. In an effort to prevent improper collusion between appraisers and loan originators,
16 USPAP guidelines also state that client (*i.e.* loan originators) objectives must never affect the
17 appraiser’s independence or objectivity.

18 72. Because of the importance of appraisals in the home lending and mortgage-backed
19 securities markets, state and federal statutes and regulations require that appraisals be accurate and
20 independent. Specifically, USPAP requires appraisers to: “...perform assignments with impartiality,
21 objectivity, and independence, and without accommodation of personal interests. In appraisal
22 practice, an appraiser must not perform as an advocate for any party or issue.” USPAP rules also
23 provide that “[a]n appraiser must not accept an assignment that includes the reporting of
24 predetermined opinions and conclusions.” In addition, each appraisal report must contain a
25 certification signed by the appraiser, stating that his or her compensation for completing the
26 assignment is not contingent upon the development or reporting of a predetermined value or
27
28

1 direction in value that favors the cause of the client. USPAP was incorporated into federal law by 12
2 C.F.R. § 34.44.

3 73. In 2005, federal regulators, including the OTS, published guidelines regarding
4 “Appraisal Regulations and the Interagency Statement on Independent Appraisal and Evaluation
5 Functions” requiring, among other things, that: (1) loan production staff should not select appraisers;
6 (2) loan productions staff should not be involved in developing or maintaining lists of appraisers;
7 and (3) information provided by the regulated institution should not unduly influence an appraiser or
8 in any way suggest the property’s value.
9

10 74. Appraiser Defendants addressed implementation of the new guidelines in a June 1,
11 2005 press release quoting Diane Valadez, Sr. VP of Valuation Consulting at eAppraiseIT:

12 The predominant compliance concern requiring immediate attention is ensuing that
13 the loan production staff is not involved in selecting, monitoring and approving
14 appraisers.

15 “As an independent valuation company, eAppraiseIT is committed to helping our
16 lenders implement a plan that conforms to the new guidelines,” said Valdez. “We
17 have a variety of tools and services that can ensure compliance in the wholesale,
correspondent, and retail environments.”

18 75. The Registration Statement and Prospectus Supplements included numerous
19 representations about the quality of the mortgage loans underlying each of the Trusts, including the
20 LTV ratios used to determine whether the underlying collateral was adequate, and the appraisal
21 standards used to value the properties that collateralized the underlying mortgages. Because the
22 LTV ratio is directly dependent on the appraisal value, any error related to an appraisal will directly
23 affect the loan’s LTV ratio.

24 76. The Prospectus Supplements filed with the SEC in connection with the sale of
25 Certificates to Plaintiff and members of the Class made numerous representations regarding
26 purportedly favorable LTV ratios for mortgage loans supporting the Certificates.
27
28

77. The Registration Statement assured that:

The adequacy of the mortgaged property as collateral generally is determined by an appraisal made in accordance with pre-established appraisal guidelines. At origination, all appraisals are required to conform to the Uniform Standards of Professional Appraisal Practice Adopted by the Appraisal Standards Board of the Appraisal Foundation, and are made on forms acceptable to Fannie Mae and/or Freddie Mac.

WMAAC, Form S-3/A Registration Statement, filed April 9, 2007, at S-31.

78. The Prospectus Supplements further stated that:

The adequacy of the mortgaged property as collateral generally is determined by an appraisal made in accordance with pre-established appraisal guidelines. *At origination, all appraisals are required to conform to the Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation*, and are made on forms acceptable to Fannie Mae and/or Freddie Mac. Appraisers may be staff appraisers employed by the sponsor or independent appraisers selected in accordance with the pre-established appraisal guidelines. Such guidelines generally require that the appraiser, or an agent on its behalf, personally inspect the property and verify whether the property is in adequate condition and, if the property is new construction, whether it is substantially completed. However, in the case of mortgage loans underwritten through the sponsor's automated underwriting system, an automated valuation method may be used, under which the appraiser does not personally inspect the property but instead relies on public records regarding the mortgaged property and/or neighboring properties. In either case, the appraisal normally is based upon a market data analysis of recent sales of comparable properties and, when deemed applicable, a replacement cost analysis based on the current cost of constructing or purchasing a similar property....

WaMu Series 2007-HY5 Trust, Prospectus Supplement Form 424B5, dated April 23, 2007, at S-29; *see also*, Prospectus Supplement Form 424B5 for:

Series	Page Number	Series	Page Number
WAMU 2007 - HY6	S-29	WMALT 2007 - OA5	S-34 – S-35
WAMU 2007 - HY7	S-26	WMALT 2007 - OC1	S-27 – S-28
WAMU 2007 - OA4	S-39	WMALT 2007 - OC2	S-27 – S-28
WAMU 2007 - OA5	S-40	WMALT 2007 - 3	S-31 – S-32
WAMU 2007 - OA6	S-40	WMALT 2007 - 4	S-28
WMALT 2007 - OA4	S-34 – S-35	WMALT 2007 - 5	S-28 – S-29

79. Contrary to these representations, the appraisals eAppraiseIT performed for WaMu did not conform to the USPAP standards and did not portray accurate market data and valuation.

1 Because WaMu's profits were determined largely by the quantity of the loans successfully closed
2 and not on the quality of those loans, WaMu pressured and influenced eAppraiseIT to "hit" the LTV
3 ratios necessary to allow more loans to close and be eligible for pooling and sale to the securitization
4 market. WaMu then published the resulting defective LTV ratios in the Offering Documents.

5 **D. WCC's Failure to Conduct Due Diligence**

6
7 80. The Registration Statement provides that the loan underwriting guidelines used to
8 originate the loan collateral is as specifically set forth in each of the Prospectus Supplements. The
9 Prospectus Supplements provide that the mortgage loans underlying the Certificates were originated
10 pursuant to detailed underwriting guidelines adhered to by WMB and correspondent lenders in
11 originating the mortgage loans. *Id.*

12
13 81. As underwriter of the Certificate Offerings, WCC conducted inadequate due diligence
14 with respect to whether the underlying mortgages were originated in compliance with the guidelines
15 described in the Offering Documents. In fact, very little, if any, due diligence was actually
16 conducted by WCC itself. Instead, WCC largely relied on the examination by WMB and third-party
17 contractors, including Bohan and Clayton, of the underlying mortgage loan collateral in preparing
18 the Offering Documents.

19
20 82. As delinquency and default rates began to skyrocket as early as four months after the
21 initial Offering dates, WCC was forced to write-down a significant portion of the value of its
22 mortgage-related securities holdings, has been and continues to be subject to Federal and State
23 investigations and in some cases, has been forced into bankruptcy from the resultant mortgage-
24 related losses.

25
26 83. Indeed, in June 2007, the New York Attorney General ("NYAG") subpoenaed
27 documents from Bohan and Clayton related to their due diligence efforts on behalf of the investment
28 banks that underwrote mortgage-backed securities. The NYAG, along with Massachusetts,

1 Connecticut and the SEC (all of which also subpoenaed documents) is investigating whether
2 investment banks held back information they should have provided in their disclosure documents
3 related to the sale of mortgage backed securities to investors.

4 84. In a January 12, 2008 article titled "Inquiry Focuses on Withholding of Data on
5 Loans," *The New York Times* reported:
6

7 An investigation into the mortgage crisis by New York State prosecutors is now
8 focusing on whether Wall Street banks withheld crucial information about the risks
9 posed by investments linked to subprime loans.

10 Reports commissioned by the banks raised red flags about high-risk loans known as
11 exceptions, which failed to meet even the lax credit standards of subprime mortgage
12 companies and the Wall Street firms. But the banks did not disclose the details of
13 these reports to credit-rating agencies or investors.

14 The inquiry, which was opened last summer by New York's attorney general,
15 Andrew M. Cuomo, centers on how the banks bundled billions of dollars of
16 exception loans and other subprime debt into complex mortgage investments,
17 according to people with knowledge of the matter. Charges could be filed in coming
18 weeks.

19 * * *

20 The inquiries highlight Wall Street's leading role in igniting the mortgage boom that
21 has imploded with a burst of defaults and foreclosures. The crisis is sending shock
22 waves through the financial world, and several big banks are expected to disclose
23 additional losses on mortgage-related investments when they report earnings next
24 week.

25 As plunging home prices prompt talk of a recession, state prosecutors have zeroed in
26 on the way investment banks handled exception loans. In recent years, lenders, with
27 Wall Street's blessing, routinely waived their own credit guidelines, and the
28 exceptions often became the rule.

It is unclear how much of the \$1 trillion subprime mortgage market is composed of
exception loans. Some industry officials say such loans made up a quarter to a half
of the portfolios they saw. In some cases, the loans accounted for as much as 80
percent. While exception loans are more likely to default than ordinary subprime
loans, it is difficult to know how many of these loans have soured because banks
disclose little information about them, officials say.

Wall Street banks bought many of the exception loans from subprime lenders, mixed
them with other mortgages and pooled the resulting debt into securities for sale to

1 investors around the world.

2 * * *

3 Mr. Cuomo, who declined to comment through a spokesman, subpoenaed several
4 Wall Street banks last summer, including Lehman Brothers and Deutsche Bank,
5 which are big underwriters of mortgage securities; the three major credit-rating
6 companies: Moody's Investors Service, Standard & Poor's and Fitch Ratings; and a
7 number of mortgage consultants, known as due diligence firms, which vetted the
8 loans, among them Clayton Holdings in Connecticut and the Bohan Group, based in
9 San Francisco. Mr. Blumenthal said his office issued up to 30 subpoenas in its
10 investigation, which began in late August.

11 * * *

12 To vet mortgages, Wall Street underwriters hired outside due diligence firms to
13 scrutinize loan documents for exceptions, errors and violations of lending laws. But
14 Jay H. Meadows, the chief executive of Rapid Reporting, a firm based in Fort Worth
15 that verifies borrowers' incomes for mortgage companies, said lenders and
16 investment banks routinely ignored concerns raised by these consultants,

17 "Common sense was sacrificed on the altar of materialism," Mr. Meadows said, "We
18 stopped checking."

19 85. On January 27, 2008, Clayton revealed that it had entered into an agreement with the
20 NYAG for immunity from civil and criminal prosecution in the State of New York in exchange for
21 agreeing to provide additional documents and testimony regarding its due diligence reports,
22 including copies of the actual reports provided to its clients. On the same day, both the *New York*
23 *Times* (Anderson, J. and Bajaj, V., "Reviewer of Subprime Loans Agrees to Aid Inquiry of Banks,"
24 Jan. 27, 2008), and the *Wall Street Journal* ran articles describing the nature of the NYAG's
25 investigation and Clayton's testimony.

26 86. The *Wall Street Journal* reported that the NYAG's investigation was focused on "the
27 broad language written in prospectuses about the risky nature of these securities changed little in
28 recent years, even as due diligence reports noted that the number of exception loans backing the
securities was rising." According to the *New York Times* article, Clayton told the NYAG "that
starting in 2005, it saw a significant deterioration of lending standards and a parallel jump in lending

1 expectations” and “some investment banks directed Clayton to halve the sample of loans it evaluated
2 in each portfolio.”

3 87. A March 23, 2008 *Los Angeles Times* article reported that Clayton and Bohan
4 employees “raised plenty of red flags about flaws [in subprime home loans] so serious that
5 mortgages should have been rejected outright – such as borrowers’ incomes that seemed inflated or
6 documents that looked fake – but the problems were glossed over, ignored or stricken from reports”
7 as follows:
8

9 The reviewers’ role was just one of several safeguards – including home appraisals,
10 lending standards and ratings on mortgage-backed bonds – that were built into the
country’s mortgage-financing system.

11 But in the chain of brokers, lenders and investment banks that transformed mortgages
12 into securities sold worldwide, no one seemed to care about loans that looked bad
13 from the start. Yet profit abounded until defaults spawned hundreds of billions of
dollars in losses on mortgage-backed securities.

14 “The investors were paying us big money to filter this business,” said loan checker
15 Cesar Valenz. “It’s like with water. If you don’t filter it, it’s dangerous. And it
16 didn’t get filtered.”

17 As foreclosures mount and home prices skid, the loan-review function, known as
“due diligence,” is gaining attention.

18 The FBI is conducting more than a dozen investigations into whether companies
19 along the financing chain concealed problems with mortgages. And a presidential
20 working group has blamed the subprime debacle in part on a lack of due diligence by
investment banks, rating outfits and mortgage-bond buyers.

21 *The Los Angeles Times*, “Subprime Watchdogs Ignored,” March 23, 2008.

22 88. Moreover, while earlier in this decade issuers would have sought to have Clayton
23 review 25% to 40% of loans in a pool that was going to be securitized, by 2006 the typical
24 percentage of loans reviewed for due diligence purposes was at most seven percent. Bohan’s
25 President, Mark Bohan, stated that “[b]y contrast, buyers who kept the mortgages as an investment
26 instead of packaging them into securities would have 50% to 100% of the loans examined.”
27
28

1 89. In December 2007, WaMu announced in an article in the *New York Times* that it was
2 closing WCC.

3 **E. Collapse of the Mortgages Underlying the Certificates**

4 90. The defective nature of the mortgage collateral underlying the Certificates is reflected
5 by the recurring pattern of exponential increases in borrower delinquencies in the months after each
6 of the thirteen (13) Offerings.

7
8 91. Four months after each of the Offerings were consummated, borrower delinquency
9 and default rates on the underlying mortgage collateral increased by a staggering amount – from an
10 average of 0.00% to over 4.47% of the mortgage loan balance. Six months following issuance in
11 each of the Offerings, that average increased to over 7.2% of the mortgage loan balance. Borrower
12 default and delinquency rates in the underlying mortgage collateral have continued to increase.

13
14 92. In or around February 2009, the true deterioration of the underlying mortgage
15 collateral began to surface to the public. Borrower delinquency and default rates rose to an average
16 of 46.7% of the mortgage loan collateral, forcing the Rating Agencies to downgrade substantially all
17 of the Certificates to junk bond status. As of the date of the filing of this Complaint, over 60% of
18 mortgage collateral is considered to be in some form of delinquency or default.

19
20 93. Despite assurances by WaMu in the Offering Documents that the mortgage loans
21 collateralizing the Certificates were originated pursuant to the stated guidelines of WMB, nothing
22 could have been further from the truth.

23 **F. The Ratings Agencies' Outdated Ratings Models**

24 94. The Prospectus Supplements contain material misstatements and omissions of fact,
25 including the failure to disclose that the amounts and forms of credit enhancement were understated
26 and insufficient because they were largely determined by Rating Agencies' models that had not been
27 materially updated since 1999 (for S&P) and 2002 (for Moody's). The Ratings Agencies' models
28

1 were based primarily on the performance of fixed interest loans and not subprime, Alt-A, zero or
2 limited documentation loans, which were the types of loans that comprised a significant proportion
3 of the Certificate collateralizations.

4 95. The Rating Agencies' determinations of the amount and type of credit enhancement
5 to be included in the Certificates were faulty. These same faulty determinations were then used by
6 the same firms to assign inflated and faulty AAA ratings to a substantial portion of the total
7 Certificate value of the Offerings (93.7% of the aggregate value of the Offerings). These ratings
8 were unjustifiably high because they were determined pursuant to the same outdated models used to
9 determine credit enhancement.
10

11 96. The Rating Agencies' use of outdated models in rating mortgage-backed securities
12 deals only began to be disclosed to investors in 2008. The inadequacy of the models used to rate
13 (and determine the amount of credit enhancement needed to support the rating) was discussed in the
14 April 2008 issue of *Mortgage Banking*, which explained that the Rating Agencies' models used
15 statistical assumptions that were too heavily based on the performance of 30-year-fixed mortgages,
16 which were not the kinds of complex, risky mortgages that had been securitized in the prior four
17 years:
18

19 S & P's Coughlin admits that "assumptions that went into decision-making [on credit
20 ratings] were informed by what had happened in the past," and yet in this instance
21 "previous loss data proved to be much less of a guide to future performance."

22 But why? Drexel University's Mason believes it's because the CRAs relied on
23 statistical models that were misleading, at best. "I think their [credit-rating]
methodologies were demonstrably insufficient," he says.

24 "Unlike the traditional rating processes for single-named issuers, which rely on
25 empirical analysis at their core, structured-finance rating analysis is essentially
26 driven by statistical models," write Mason and Rosner in their paper. And the data
27 that the rating agencies used when evaluating mortgage-backed securities--including
those backed by subprime mortgages--were heavily biased by over-reliance on
28 traditional 30-year fixed prime mortgage loans. But it turns out that a subprime loan,
as Mason explains during an interview, is a very different animal.

1 “This is not your historical mortgage loan,” he says. “This is more like a credit-card
2 loan.” Mason cites the increased popularity during the mortgage boom of so-called
3 option ARMs, which are home loans that give the borrower a variety of monthly
4 payment options and have variable cash-flow characteristics that are more like credit
cards.

5 97. *The New York Times* noted, with respect to Moody’s April 2007 disclosure, in an
6 article published on April 8, 2008, that it was “revising” its model which had not been revised since
7 2002:

8 In April 2007, Moody’s announced it was revising the model it used to evaluate
9 subprime mortgages. It noted that the model “was first introduced in 2002. Since
10 then, the mortgage market has evolved considerably.” This was a rather stunning
admission; its model had been based on a world that no longer existed.

11 98. The article explained that when Moody’s had analyzed subprime delinquency data in
12 2007 it had found trends that its 2002 model never accounted for:

13 Poring over the data, Moody’s discovered that the size of people’s first mortgages
14 was no longer a good predictor of whether they would default; rather, it was the size
15 of their first and second loans – that is, their total debt – combined. This was rather
16 intuitive; Moody’s simply hadn’t reckoned on it. Similarly, credit scores, long a
17 mainstay of its analyses, had not proved to be a “strong predictor” of defaults this
18 time. Translation: even people with good credit scores were defaulting. Amy Tobey,
19 leader of the team that monitored XYZ, told me, “it seems there was a shift in
20 mentality; people are treating homes as investment assets.” Indeed. And
homeowners without equity were making what economists call a rational choice;
they were abandoning properties rather than make payments on them. Homeowners’
equity had never been as high as believed because appraisals had been inflated.

21 **G. The Ratings Agencies’ Failure to Conduct Due Diligence**

22 99. The Rating Agencies rated the Certificates based in large part on data about each
23 mortgage loan that WaMu provided to them – including appraisal values, LTV ratios, borrower
24 creditworthiness, loan documentation provided by borrowers used verify assets and/or income levels
25 and quality control or oversight procedures followed by the Originators in underwriting the mortgage
26 loans.

27 100. As discussed herein, much of this data was inaccurate due to the inflated appraisal
28

1 values, inaccurate LTV ratios, borrower income inflation, disregard of originator internal controls
2 and origination guidelines in addition to other facets of defective underwriting addressed herein.
3 Neither Moody's nor S&P engaged in any due diligence or otherwise sought to verify the accuracy
4 or quality of the loan data underlying the mortgage-backed securities pools they rated (and
5 specifically disclaimed any due diligence responsibilities). Nor did they seek representations from
6 WaMu that due diligence had been performed.
7

8 101. As a result of their lack of due diligence, Moody's and S&P were using flawed
9 information and models to generate their ratings. As a result, the ratings assigned to the Certificates
10 did not accurately reflect their risk, and the Certificates were given investment-grade ratings when in
11 reality they were not of investment grade quality. The artificially high ratings, which were published
12 in the Prospectus Supplements, were materially misleading in that they did not reflect the true risk of
13 the Certificates.
14

15 **H. Ratings Shopping**

16 102. The Registration Statement disclosed the engagement of the Rating Agencies but
17 omitted disclosure of the manner in which the Rating Agencies were engaged.

18 103. WaMu ultimately chose the Rating Agencies through ratings shopping. Initially, a
19 WaMu collateral analyst would send the preliminarily structured deal to the Rating Agencies for
20 feedback. WaMu's in-house ratings analysts would oversee the communications with the Rating
21 Agencies. Thereafter, S&P, for example, would run the loan collateral through both its "LEVELS"
22 and "SPIRE" Models and provide WaMu with the deal structuring results in an effort to obtain the
23 ratings engagement. Through the LEVELS Model, S&P would advise WaMu that, for example,
24 94.25% of the Certificates would be rated AAA as long as 5.75% of the total collateral balance
25 supporting those Certificates was subordinate. This 5.75% was the amount of loss coverage
26 required. WaMu would then again "negotiate" with S&P before the engagement was finalized, in
27
28

1 order to decrease the amount of loss coverage and credit enhancement S&P's model required for the
2 specific deal, while still maintaining the highest percentage of AAA-rated Certificates.⁷

3 104. Likewise, Moody's would run the information provided by WaMu through its model
4 – the "M-3" Model – which was intended to provide ratings based on a complete assessment of the
5 quality of the collateral underlying the Certificates.
6

7 105. All of this work by S&P and Moody's, referred to by S&P as "bid package" work,
8 was performed without any compensation from WaMu and was an effort to engender goodwill so
9 that WaMu would ultimately engage either of the Ratings Agencies to rate the loans at the
10 underwriting stage.

11 106. WaMu relied on the ratings shopping process to obtain the most profitable structure,
12 to WaMu, on the Offerings. The practice was effectively curtailed in many respects by way of an
13 agreement entered into between the Rating Agencies and the New York Attorney General in 2008.
14

15 **I. The Rating Agencies' Role in Forming and Structuring the Offerings**

16 107. An article appearing in *The Financial Times* on October 17, 2008, entitled "When
17 Junk Was Gold," addressed the unique role of the Rating Agencies in structured finance deals such
18 as mortgage backed securities:

19 The first mortgage-backed bonds were created in the late 1980's, well before
20 Clarkson's time, by a trader called "Lewie" Ranieri. Ranieri, the head of the
21 mortgage trading desk at the former investment bank Salomon Brothers, was famous
22 for the huge sums of money he netted for his employer and for the quantity of
23 cheeseburgers he ate. What he struck upon in structured finance was a process of
pure alchemy: a way of turning myriad messy mortgage loans into standardized,
regimented and easy-to-assess bonds.

24 Ranieri knew that the magic of structuring was in the packaging. Packaged in the
25 right way, mortgages could come to create a huge, new tradable bond market. And

26 ⁷ S&P would also run the deal through its "SPIRE" Model in order to provide a deal structure
27 that was within its acceptable levels of subordination or overcollateralization in order to obtain class,
28 or tranche, sizes with the appropriate ratings.

1 this is where the rating agencies came in. Structured bonds, like any other bond,
2 needed ratings in order to be sold. *But with a structured bond, the pools of debt*
3 *could be built or modified in order to attain a particular rating. This wasn't a*
4 *matter of disguising the risk, rather a way of reapportioning it and allowing*
5 *investors with different risk appetites to buy the right product for them. "The*
6 *rating is what gives birth to the structure in the first place," explains Sylvain*
7 *Raynes, a financial modeling expert who was with Moody's in the 1990s, when*
8 *Clarkson joined. In some cases, the ratings are known before the bonds have even*
9 *been inked. "You start with a rating and build a deal around a rating," Clarkson*
10 *told an investment magazine last year.*

11 (Emphasis added).

12 108. The Rating Agencies' role in influencing the structure of the securitization was more
13 fully discussed in the July 2008 SEC Report. The July 2008 SEC Report confirmed that S&P and
14 Moody's provided "feed back" to the Sponsor of the Offerings as to the structure, which would
15 result in the highest rating:

16 The [] examined rating agencies generally followed similar procedures to develop
17 ratings for subprime mortgage-backed securities and CDOs. The arranger of the
18 mortgage-backed securities initiates the ratings process by sending the credit rating
19 agency a range of data on each of the subprime loans to be held by the trust (e.g.,
20 principal amount, geographic location of the property, credit history and FICO score
21 of the borrower, ratio of the loan amount to the value of the property and type of
22 loan: first lien, second lien, primary residence, secondary residence), the proposed
23 capital structure of the trust and the proposed levels of credit enhancement to be
24 provided to each mortgage-backed securities tranche issued by the trust. Typically, if
25 the analyst concludes that the capital structure of the mortgage-backed securities
26 does not support the desired ratings, this preliminary conclusion would be conveyed
27 to the arranger. The arranger could accept that determination and have the trust issue
28 the securities with the proposed capital structure and the lower rating or adjust the
structure to provide the requisite credit enhancement for the senior tranche to get the
desired highest rating. Generally, arrangers aim for the largest possible senior
tranche, i.e., to provide the least amount of credit enhancement possible, since the
senior tranche – as the highest rated tranche – pays the lowest coupon rate of the
mortgage-backed securities' tranches and, therefore, costs the arranger the least to
fund.

July 2008 SEC Report, at 22.

J. The Financial Conflicts of Interest Between WaMu and the Ratings Agencies

109. The Offering Documents make no mention of the material financial conflicts of

1 interest between WaMu and the Rating Agencies. The July 2008 SEC Report confirmed significant
 2 undisclosed conflicts of interest which gave the Rating Agencies an incentive to issue inflated
 3 ratings. The July 2008 SEC Report found, in violation of SEC Rules, that “key participants” in the
 4 securitization process negotiated fees the Ratings Agency would receive in exchange for its high
 5 ratings. July 2008 SEC Report, at 23-24.

6
 7 110. The July 2008 SEC Report also noted, *inter alia*, that analysts are “aware” of the
 8 rating firm’s “business interests when securing the rating of the deal” as follows:

- 9 • ***While each rating agency has policies and procedures restricting analysts from***
 10 ***participating in fee discussions with issuers***, these policies still allowed key
 11 participants in the ratings process to participate in fee discussions.
- 12 • Analysts appeared to be aware, when rating an issuer, of the rating agency’s
 13 business interest in securing the rating of the deal. The Staff notes multiple
 14 communications that indicated that some analysts were aware of the firm’s fee
 15 schedules, and actual (negotiated) fees. There does not appear to be any internal
 16 effort to shield analysts from emails and other communications that discuss fees
 17 and revenue from individual issuers.
- 18 • ***“Rating agencies do not appear to take steps to prevent considerations of***
 19 ***market share and other business interests from the possibility that they could***
 20 ***influence ratings or ratings criteria.”***

21 July 2008 SEC Report, at 24-25 (emphasis added).

22 111. The July 2008 SEC Report found that a number of factors unique to the rating of
 23 mortgage-backed securities may have “exacerbated” the effect of conflicts of interest inherent in the
 24 fact that the issuer or arranger pays for the ratings. These factors include that the arranger of the deal
 25 has:

- 26 • ***“More flexibility to adjust the deal to obtain a desired credit rating as***
 27 ***compared to arrangers of non-structured asset classes.”***
- 28 • “Second, there is a high concentration in the firms conducting the
 underwriting function... While 22 different arrangers underwrote subprime
 mortgage-backed securities deals, 12 arrangers accounted for 80% of the
 deals, in both number and dollar volume.”

- 1 • With a fast-changing market, rating processes are frequently and quickly
2 changed. The high concentration of arrangers with the influence to determine
3 the *choice of rating agency heightened the inherent conflicts in the “issuer*
4 *pays” compensation model*. Compensation is calculated by volume of deals
5 and total dollar volume, as a result arrangers prefer fast and predictable
6 ratings processes.
- 7 • Rating Agencies may be pressured by arrangers to produce a more *favorable*
8 *outcome or reduce credit enhancement levels*, thus reducing *the cost of the*
9 *debt for a given level of cash inflows from the asset pool*. When the
10 arranger also sponsors the mortgage-backed securities or CDO trust, pressure
11 can influence an agency’s decision to update a model when the update would
12 lead to a less favorable outcome.
- 13 • *High profit margins may have provided an incentive for rating agencies to*
14 *encourage the arrangers to route future business its way*. Unsolicited
15 ratings were not available to provide independent checks on the rating
16 agencies’ ratings, nor was information regarding the structure of the security
17 or portfolio of assets readily available to parties unrelated to the transaction,
18 especially before issuance.

19 July 2008 SEC Report, at 31-33 (emphasis added).

20 112. As reported in *The Washington Post* on June 6, 2008, the NYAG announced that it
21 had reached an agreement with the credit-rating companies, S&P, Moody’s and Fitch to:

22 ... change the way they evaluate mortgage securities that have roiled financial
23 markets for the past year.

24 The deal with Moody’s Investors Service, Standard & Poor’s and Fitch Ratings aims
25 to restore confidence among investors -- who saw top-rated securities lose much of
26 their worth in a matter of months -- by revising how the agencies are paid for issuing
27 ratings. The agreement also requires credit-rating agencies to direct investment
28 banks to provide them with more data on the pools of mortgages that make up the
bonds.

The agencies have been under fire for the role they played in the subprime mortgage
crisis by awarding top ratings to securities that soured. Regulators and investors
have alleged that the agencies have a conflict of interest because they are paid by the
investment banks issuing the securities, thus encouraging the credit agencies to give
high ratings to win business.

The agreement seeks to end this practice by having the issuers pay the credit-rating
agencies at four points during the rating process, not just at the end when the rating is
given.

1 Credit-rating agencies will also be required to disclose information about all
2 securities submitted for review, allowing investors to determine whether issuers
3 sought, but subsequently decided not to use, ratings from a specific agency. This
4 will allow investors to see whether investment banks shopped around for the agency
that would give their securities the best rating, said Andrew M. Cuomo, New York's
attorney general.

5 113. As reported in *The Washington Post*, the NYAG further stated that:

6 The mortgage crisis currently facing this nation was caused in part by
7 misrepresentations and misunderstanding of the true value of mortgage securities,"
8 Cuomo said in a statement. "By increasing the independence of the rating agencies,
9 ensuring they get adequate information to make their ratings, and increasing
industry-wide transparency, these reforms will address one of the central causes of
that collapse.

10 114. Furthermore, in January 2009, the Congressional Oversight Panel issued a the January
11 2009 Congressional Oversight Panel Report The January 2009 Congressional Oversight Panel
12 Report stated, in no uncertain terms:

13 **Problem with current [Credit Ratings] system: *The credit rating system is***
14 ***ineffective and plagued with conflicts of interest.***

15 ***The major credit rating agencies played an important-and perhaps decisive-role in***
16 ***enabling (and validating) much of the behavior and decision making that now***
17 ***appears to have put the broader financial system at risk.*** In the subprime-related
18 market specifically, high ratings for structured financial products - especially
19 mortgage-backed securities ... - were essential for ensuring broad demand for these
20 products. High ratings not only instilled confidence in potentially risk-averse
21 investors, but also helped satisfy investors' regulatory requirements, which were
22 often explicitly linked to ratings from the major credit rating agencies. By 2006,
23 Moody's business in rating structured financial products accounted for 44 percent of
24 its revenues, as compared to 32 percent from its traditional corporate-bond rating
25 business. It has also been reported that "roughly 60 percent of all global structured
26 products were AAA-rated, in contrast to less than 1 percent of corporate issues."
27 Financial firms, from Fannie Mae to AIG, also benefited greatly from having high
28 credit ratings of their own-especially AAA-allowing them not only to borrow at low
rates on the short-term markets to finance longer-term (and higher yielding)
investments but also to sell guaranties of various sorts, effectively "renting out" their
credit rating.

January 2009 Congressional Oversight Panel Report, at 40-41.

1 **V. THE APPRAISER DEFENDANTS' FALSE VALUATIONS**

2 115. First American and eAppraiseIT knew that their defective, inflated appraisals for
3 WMB were the basis for mortgages that would be securitized and sold to Plaintiff and members of
4 the Class in the form of mortgage-backed securities. In filings with the SEC in early 2007, First
5 American acknowledged that its operating revenue had been adversely impacted “*by the decline in*
6 *mortgage originations and the tightening of the credit markets which led to a decrease in*
7 *mortgage securitization activity and therefore the demand for some of the mortgage analytic*
8 *product offerings.*” Annual Report of First American on Form 10K/A filed with the SEC on October
9 8, 2009 at p. 19 (Emphasis added).

10
11 116. The Appraiser Defendants violated USPAP guidelines and inflate the value of the
12 properties collateralizing the mortgages underlying the Certificates in order to obtain appraisal
13 business with WaMu.

14
15 117. Indeed, on November 1, 2007 the NYAG filed a lawsuit against eAppraiseIT and
16 First American, alleging that eAppraiseIT appraisers unlawfully inflated the real property appraisals
17 they performed for WaMu. *See People of the State of New York v. First American Corporation and*
18 *First American eAppraiseIT*, No. 07-406796 (N.Y.Sup.Ct. Filed Nov. 1, 2007) (the “NYAG
19 Complaint”).

20
21 118. The NYAG Complaint alleges that First American and eAppraiseIT abandoned their
22 role of providing unbiased appraisals for WaMu, instead allowing WaMu’s loan production
23 executives to “hand-pick appraisers who bring in appraisal values high enough to permit WaMu’s
24 loans to close,” and “improperly [permitting] WaMu to pressure eAppraiseIT appraisers to change
25 appraisal values that are too low to permit loans to close.” NYAG Complaint at 3.

26 119. According to the NYAG complaint, the terms of the contract between WaMu and
27 eAppraiseIT allowed WaMu, in circumstances where its loan staff disagreed with an eAppraiseIT
28

1 appraisal, to challenge an eAppraiseIT appraiser's valuation of a property by requesting a
2 "Reconsideration of Value" ("ROV"). *Id.* at 10. Washington Mutual routinely requested ROVs
3 from eAppraiseIT appraisers in order to hit the LTV ratios for properties necessary for loans to close
4 and be pooled with other loans for securitization. *Id.* at 10.

5
6 120. The NYAG Complaint contains numerous emails and other communications obtained
7 by the NYAG through subpoenas issued to eAppraiseIT. Among other things, the email
8 communications demonstrate a pattern of improper conduct between First American, eAppraiseIT
9 and Washington Mutual in connection with appraisals of properties collateralizing WaMu
10 mortgages.

11
12 121. For example, on August 9, 2006, eAppraiseIT's President told WaMu executives that
13 "We need to address the ROV issue.... Many lenders in today's environment...have no ROV issue.
14 The value is the value. I don't know if WAMU production will go for that.... The Wamu internal
15 staff we are speaking with admonish us to be certain we solve the ROV issue quickly or we will all
16 be in for some pretty rough seas." *Id.* at 11.

17
18 122. On December 18, 2006, an eAppraiseIT executive relayed to others that WaMu had
19 advised him that its criticism was based on the fact that "values are coming in lower with EA
20 [eAppraiseIT]" than with LSI, the competing appraisal management company that WaMu had also
21 retained to provide appraisals. According to this executive, WaMu maintained that "[t]hey also see
22 more Wamu preferred appraisers doing work for LSI and they think that is why they aren't having as
23 many value issues with them.... The [WaMu] managers indicated that if the loan consultants had a
24 choice they would prefer to use LSI over eAppraiseIT because they feel they will have less problem
25 with the values." *Id.* at 13.

26
27 123. By email dated February 22, 2007, eAppraiseIT's President explained to senior
28 executives at First American that eAppraiseIT would be staffing WaMu appraisals with "Proven

Appraisers” hand-selected by WaMu’s loan origination staff:

We had a joint call with Wamu and LSI today. The attached document outlines the new appraiser assigning process. In short, we will now assign all Wamu’s work to Wamu’s “Proven Appraisers” We will pay their appraisers whatever they demand. Performance ratings to retain position as a Wamu Proven Appraiser will be based on how many come in on value, negating a need for an ROV.

Id. at 13-14.

124. In an email dated March 1, 2007, eAppraiseIT’s President told WaMu executives:

Recently, we have been notified that Lending would like us to use more of their “Proven Appraisers” versus appraisers off our preselected appraiser panel. It seems the amount of Reconsideration of Value (ROV) requests associated with our appraisers far exceeds those initiated when a WaMu proven appraiser completes a file. Said differently, Wamu proven appraisers bring the value in a greater majority of the time with minimal involvement of the vendor, sales and Appraisal Oversight. I am fine with that, of course, and will happily assign Wamu orders to Wamu proven appraisers instead of eAppraiseIT’s approved panel appraiser whenever possible.

Id. at 15.

125. On April 17, 2007, eAppraiseIT’s President wrote to senior executives at First American, explaining issues with WaMu as follows:

In short, the issues are using their designated appraisers as mandated by the WaMu production force at 20% gross margin and bypassing our panel. We view this as a violation of the OCC, OTS, FDIC and USPAP influencing regulation.

Id. at 17.

126. First American and eAppraiseIT knew that complying with the WaMu “Proven Panel” violated appraiser independence regulations. However, eAppraiseIT did not stop conducting appraisals for WaMu in this manner.

127. On May 11, 2007, eAppraiseIT’s Executive Vice President wrote in an email to eAppraiseIT’s President that “currently WAMU is controlling the appraiser panel. They are selecting the appraisers and calling them ‘proven’ appraisers. These appraisers are being chosen by their sales force. First American eAppraiseIT [] is obligated to use these appraisers.” According to

eAppraiseIT's Executive Vice President, WaMu was using the "Proven Appraisers" because of the "low values" from other eAppraiseIT's appraisers. *Id.* at 21

128. According to the NYAG Complaint, eAppraiseIT's internal appraisal log entries indicate that its appraisers increased property values on appraisal reports after being told by WaMu loan origination staff that such increases would help loans to close. For the period from November 2006 to May 2007, there were eight reviews performed relating to properties in New York, all of which were for WaMu. The appraised values were increased in each of the nine reviews completed, as follows: from \$825,000 to \$850,000, \$230,000 to \$240,000, \$415,000 to \$420,000, \$1,550,000 to \$2,270,000, \$720,000 to \$730,000, \$535,000 to \$556,000, \$580,000 to \$587,000, \$500,000 to \$525,000. *Id.* at 29.

129. In this manner, the appraisals eAppraiseIT performed for WaMu did not portray accurate market data and valuation. In order to earn business from WaMu eAppraiseIT artificially inflated appraisal values to "hit" the LTV ratios necessary to allow more loans to close and be eligible for pooling and sale to the securitization market in complete disregard to appraiser independence requirements.

VI. THE DEFENDANTS' MISTATEMENTS AND OMISSIONS

A. The Offering Documents Included Material Misstatements and Omitted Material Information Regarding Mortgage Loan Underwriting Guidelines

1. The Registration Statement

130. The effective Registration Statement described that generally the adequacy of the property financed by the loan will have been determined by an appraisal according to guidelines as follows:

In determining the adequacy of the property as collateral, an appraisal is made of each property considered for financing. The appraiser, or an agent on its behalf, is generally required to personally inspect the property and verify that it is in adequate condition and that construction, if new, has been substantially completed. However,

1 in some cases an automated valuation method may be used, under which the
2 appraiser does not personally inspect the property but instead relies on public records
3 regarding the mortgaged property and/or neighboring properties. In either case, the
4 appraisal normally is based upon a market data analysis of recent sales of comparable
5 properties and, when deemed applicable, a replacement cost analysis based on the
6 current cost of constructing or purchasing a similar property. Some of the mortgage
7 loans may be re-underwritten by a mortgage loan seller.

8 WMAAC, Form S-3/A Registration Statement, filed April 9, 2007, at 45.

9 131. The excerpt from the Registration Statement in the above paragraph contained
10 material misstatements and omission of fact because:

11 (a) WaMu used independent appraisal firms, including Appraiser Defendants, to
12 artificially inflate property appraisals, thereby increasing the value of their mortgage
13 portfolio and, more importantly, the value of the securitizations from which multiple WaMu
14 entities, including WMAAC, WMB and WCC, derived significant fees. This practice of
15 systematically improperly influencing appraisals resulted in the above misstatements of
16 material fact regardless of whether in-person or automated appraisals were performed on the
17 underlying properties.

18 (b) WaMu made no attempt to confirm the appraisal standards actually used by
19 mortgage brokers, correspondents and other third-parties from which they acquired
20 mortgages, as evident from the fact that, since issuance of the Certificates, public disclosures
21 revealed that WMB ignored stated appraisal requirements and in many cases negligently
22 employed underwriting practices that included the use of interested appraisers.

23 (c) Higher deal fees and more profitable market conditions were motivation for
24 WaMu not to spend the time and money to investigate the validity of appraisal values on the
25 underlying mortgaged properties prior to securitization. Specifically, only a small sampling
26 of the mortgage loan pool, no more than 5-7%, was reviewed before WaMu securitized the
27 loans, leaving a substantial amount of bad loans to escape inspection. Further, with WaMu's
28

1 use of the structuring software, the loans became numbers blindly plugged into a computer
2 with little or no attention paid to the underlying collateral, as long as the averages of the loan
3 pool fit within certain loosely defined parameters.

4 132. According to the Guidelines set forth in the Registration Statement, borrowers were
5 required to submit applications to the originators that were then verified for creditworthiness. For
6 example, the Registration Statement provided:
7

8 The mortgage loan seller's underwriting standards are intended to evaluate a
9 prospective mortgagor's credit standing and repayment ability, and the value and
10 adequacy of the proposed mortgage property as collateral. In the loan application
11 process, prospective mortgagors generally will be required to provide information
12 regarding such factors as their assets, liabilities, income, credit history, employment
13 history and other related items. Each prospective mortgagor generally will also
14 provide an authorization to apply for a credit report which summarizes the
mortgagor's credit history. With respect to establishing the prospective mortgagor's
ability to make timely payments, the mortgage loan seller may require evidence
regarding the mortgagor's employment and income, and of the amount of deposits
made to financial institution where the mortgagor maintains demand or savings
accounts...

15 WMAAC, Form S-3/A Registration Statement, filed April 9, 2007, at 45.

16 133. The excerpt from the Registration Statement in the above paragraph contained
17 material misstatements and omission of fact because:
18

19 (a) WaMu pressured independent appraisal firms, including Appraiser
20 Defendants, to artificially inflate property appraisals, thereby increasing the value of their
21 mortgage portfolio and, more importantly, the value of the securitizations from which
22 multiple WaMu entities, including WMAAC, WMB and WCC, derived significant fees.

23 (b) WaMu made no attempt to confirm the standards actually used by mortgage
24 brokers, correspondents and other third-parties from which they acquired mortgages, as
25 evident from the fact that, since issuance of the Certificates, public disclosures revealed that
26 WMB ignored stated appraisal requirements and in many cases negligently employed
27
28

1 underwriting practices that included the use of interested appraisers.

2 (c) WMB and its correspondent lenders were instructed to push, onto unfit and
3 unqualified borrowers, specific types of mortgage loans, namely hybrid adjustable mortgage
4 products, or ARMs, which readjusted after two or three years to significantly higher rates.
5 Furthermore, WaMu incentivized their origination branches and correspondent lenders with
6 “kick-backs” for placing borrowers into higher interest rate mortgages than they had
7 qualified for.
8

9 134. The Registration Statement, with regards to documentation requirements for full
10 documentation and less-than full documentation loans further stated:

11 If a prospective mortgagor meets certain eligibility criteria, the mortgage loan seller
12 may waive some of its documentation requirements and may not obtain information
13 about the mortgagor's income and assets or may obtain but not verify such
information.

14 WMAAC, Form S-3/A Registration Statement, filed April 9, 2007, at 45.

15 135. The excerpt from the Registration Statement in the above paragraph contained
16 material misstatements and omissions of fact because WaMu was not nearly as thorough in obtaining
17 and verifying documentation from or about borrowers as these statements of “may waive” or “may
18 not obtain” imply. As set forth herein in detail, WaMu placed the emphasis not on adherence to the
19 guidelines, but rather, on getting loans “done,” severely hindering the quality of the mortgage loans
20 and resulting in defective loan applications which, among other things, inflated borrower income
21 levels, failed to contain employment verification, over-valued properties at appraisal or required, in
22 many cases, no proof in the form of documentation at all.
23

24 **2. The Prospectus Supplements**
25

26 136. The underlying loan collateral for the Certificates issued by the Issuing Trusts was
27 originated by, or pursuant to, the origination guidelines of WMB. As set forth above, WMB
28

1 originated all of the mortgage loan collateral underlying the Certificates, served as sponsor of the
 2 collateral and securitizations, and acted as servicer of the mortgage loans after securitization. The
 3 Prospectus Supplements described WMB's Guidelines which WaMu claimed were implemented in
 4 originating the underlying collateral.

5 137. The Guidelines generally required a description of the borrower's income,
 6 employment documentation and a credit report. For example, the Prospectus Supplements for stated:

7
 8 *The sponsor's underwriting guidelines [and Washington Mutual Bank's*
 9 *underwriting guidelines] generally are intended to evaluate the prospective*
 10 *borrower's credit standing and repayment ability and the value and adequacy of*
 11 *the mortgaged property as collateral.* Some mortgage loans are manually
 12 underwritten, in which case an underwriter reviews a loan application and supporting
 13 documentation, if required, and a credit report of the borrower, and based on that
 14 review determines whether to originate a loan in the amount and with the terms
 15 stated in the loan application. Some mortgage loans are underwritten through the
 16 sponsor's automated underwriting system, [including Washington Mutual Bank's
 17 automated underwriting system,] described below.

18 WAMU Series 2007-HY5 Prospectus Supplement, Form 424B5, filed April 23, 2007, at S-28; *see*
 19 *also*, Prospectus Supplement, Form 424B5, for:

Series	Page Number	Series	Page Number
WAMU 2007 - HY6	S-28	WMALT 2007 - OA5	S-33
WAMU 2007 - HY7	S-25	WMALT 2007 - OC1	S-26
WAMU 2007 - OA4	S-38	WMALT 2007 - OC2	S-26
WAMU 2007 - OA5	S-39	WMALT 2007 - 3	S-30
WAMU 2007 - OA6	S-39	WMALT 2007 - 4	S-26
WMALT 2007 - OA4	S-33	WMALT 2007 - 5	S-27

21 138. The excerpts in the above paragraph contained material misstatements and omission
 22 of fact because:

23 (a) As set forth above, WMB, WCC and relevant third-parties failed to conduct
 24 proper due diligence and verify the information contained in borrower mortgage loan
 25 applications.
 26

27 (b) WaMu's emphasis on increasing the volume of loans at the expense of the
 28

quality of loans gave rise to an increasing number of defectively originated mortgage loans, with missing or completely fabricated borrower information, to go sight unseen by any review.

(c) WMB lending officers regularly dealt with adverse information in a borrower's credit report by simply ignoring such information. Consumer credit rating agencies must remove non-confirmable adverse information within a certain time period from consumer credit reports. Lending officers and originators knew that borrowers frequently complained to consumer credit rating agencies about accurate adverse information in an effort to increase their credit scores, and thus would not take such information into account.

139. The Prospectus Supplements describe the importance of information provided in borrower credit reports in determining whether or not to underwrite a specific mortgage loan. For example, the Prospectus Supplements also stated that:

To evaluate a prospective borrower's credit history, the loan underwriter obtains a credit report relating to the borrower from one or more credit reporting companies, usually in the form of a merged credit report.

* * *

Minimum credit scores are required for some loan products and loan programs.

For borrowers for which credit scores are not available, the loan underwriter will require alternative documentation indicating the borrower's creditworthiness, such as rental or utility payment history or payment history on other debt.

WAMU Series 2007-HY5 Prospectus Supplement, Form 424B5, filed April 23, 2007, at S-28-29; *see also*, Prospectus Supplement, Form 424B5, for:

Series	Page Number	Series	Page Number
WAMU 2007 - HY6	S-28 – S-29	WMALT 2007 - OA5	S-34
WAMU 2007 - HY7	S-25 – S-26	WMALT 2007 - OC1	S-27
WAMU 2007 - OA4	S-38 – S-39	WMALT 2007 - OC2	S-27
WAMU 2007 - OA5	S-39 – S-40	WMALT 2007 - 3	S-30 – S-31
WAMU 2007 - OA6	S-39 – S-40	WMALT 2007 - 4	S-27
WMALT 2007 - OA4	S-34	WMALT 2007 - 5	S-28

140. The Prospectus Supplements describe the importance of appraisals of mortgaged properties. For example, the Prospectus Supplements also stated that:

The adequacy of the mortgaged property as collateral generally is determined by an appraisal made in accordance with pre-established appraisal guidelines. At origination, all appraisals are required to conform to the Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation, and are made on forms acceptable to Fannie Mae and/or Freddie Mac. Appraisers may be staff appraisers employed by the sponsor or independent appraisers selected in accordance with the pre-established appraisal guidelines. Such guidelines generally require that the appraiser, or an agent on its behalf, personally inspect the property and verify whether the property is in adequate condition and, if the property is new construction, whether it is substantially completed. However, in the case of mortgage loans underwritten through the sponsor's automated underwriting system, an automated valuation method may be used, under which the appraiser does not personally inspect the property but instead relies on public records regarding the mortgaged property and/or neighboring properties. In either case, the appraisal normally is based upon a market data analysis of recent sales of comparable properties and, when deemed applicable, a replacement cost analysis based on the current cost of constructing or purchasing a similar property. For mortgage loans underwritten under the sponsor's streamline documentation programs, the appraisal guidelines in some cases permit the appraisal obtained for an existing mortgage loan to be used. Title insurance is required for all mortgage loans, except that for mortgage loans secured by shares of cooperative apartments, title insurance is not required for the cooperative apartment building (but a lien search is provided by the title company). Specific additional title insurance coverage is required for some types of mortgage loans.

WAMU Series 2007-HY5 Prospectus Supplement, Form 424B5, filed April 23, 2007, at S-29; *see also*, Prospectus Supplement, Form 424B5, for:

Series	Page Number	Series	Page Number
WAMU 2007 - HY6	S-29	WMALT 2007 - OA5	S-34 – S-35
WAMU 2007 - HY7	S-26	WMALT 2007 - OC1	S-27 – S-28
WAMU 2007 - OA4	S-39	WMALT 2007 - OC2	S-27 – S-28
WAMU 2007 - OA5	S-40	WMALT 2007 - 3	S-31 – S-32
WAMU 2007 - OA6	S-40	WMALT 2007 - 4	S-28
WMALT 2007 - OA4	S-34 – S-35	WMALT 2007 - 5	S-28 – S-29

141. The excerpts in the above paragraph contained material misstatements and omission of fact because:

(a) As stated herein, WaMu's home loan appraisals were not obtained from

1 independent appraisers or appraisal services, but rather from appraisers who ensured that
2 their appraisals conform to predetermined levels at which a loan could be approved, or risk
3 their association and employment with WaMu or brokers employed by WaMu correspondent
4 lenders throughout the country. The effect was that purportedly independent appraisals were
5 not prepared in conformance with Fannie Mae or Freddie Mac appraisal standards.

6
7 (b) WaMu failed to confirm that appraisers were following the Guidelines, and
8 this, combined with the implied or express pressures placed on appraisers to appraise to the
9 desired value, created enormous upward pressure on appraisal values, distorting loan-to-
10 value ratios and making the mortgage loans in the pool much riskier than suggested by the
11 Offering Documents. This was particularly true in 2006 and 2007 when real estate values in
12 many of the areas where the mortgage pools were located had stopped increasing at the rapid
13 pace of 2004 and 2005. Thus, the aggressive lending practices introduced during those years
14 where, for example, borrowers with mortgages in excess of their ability to pay were assured
15 that by the promise of refinancing to a lower rate, were unavailable.

16
17 142. The Prospectus Supplements also set forth, in the identical or substantially similar
18 fashion, guidelines for underwriting exceptions granted in cases where “compensating factors” were
19 present:

20
21 In evaluating a prospective borrower's ability to repay a mortgage loan, the loan
22 underwriter considers the ratio of the borrower's mortgage payments, real property
23 taxes and other monthly housing expenses to the borrower's gross income (referred to
24 as the “housing-to-income ratio” or “front end ratio”), and the ratio of the borrower's
25 total monthly debt (including non-housing expenses) to the borrower's gross income
26 (referred to as the “debt-to-income ratio” or “back end ratio”). The maximum
acceptable ratios may vary depending on other loan factors, such as loan amount and
loan purpose, loan-to-value ratio, credit score and the availability of other liquid
assets. Exceptions to the ratio guidelines may be made when compensating factors
are present.

27 WAMU Series 2007-HY5 Prospectus Supplement, Form 424B5, filed April 23, 2007, at S-29; *see*
28 *also*, Prospectus Supplement, Form 424B5, for:

Series	Page Number	Series	Page Number
WAMU 2007 - HY6	S-29	WMALT 2007 - OA5	S-34
WAMU 2007 - HY7	S-26	WMALT 2007 - OC1	S-27
WAMU 2007 - OA4	S-39	WMALT 2007 - OC2	S-27
WAMU 2007 - OA5	S-40	WMALT 2007 - 3	S-31
WAMU 2007 - OA6	S-40	WMALT 2007 - 4	S-27
WMALT 2007 - OA4	S-34	WMALT 2007 - 5	S-28

Exceptions to the sponsor's loan program parameters may be made on a case-by-case basis if compensating factors are present. In those cases, the basis for the exception is documented, and in some cases the approval of a senior underwriter is required. Compensating factors may include, but are not limited to, low loan-to-value ratio, low debt-to-income ratio, good credit standing, the availability of other liquid assets, stable employment and time in residence at the prospective borrower's current address.

WAMU Series 2007-HY5 Prospectus Supplement, Form 424B5, filed April 23, 2007, at S-30; *see also*, Prospectus Supplement, Form 424B5, for:

Series	Page Number	Series	Page Number
WAMU 2007 - HY6	S-30	WMALT 2007 - OA5	S-36
WAMU 2007 - HY7	S-27	WMALT 2007 - OC1	S-29
WAMU 2007 - OA4	S-40	WMALT 2007 - OC2	S-29
WAMU 2007 - OA5	S-41	WMALT 2007 - 3	S-29
WAMU 2007 - OA6	S-41	WMALT 2007 - 4	S-29
WMALT 2007 - OA4	S-36	WMALT 2007 - 5	S-30

143. The excerpts in the above paragraphs contained material misstatements and omission of fact because, as set forth above, WMB was very liberal in granting exceptions to its underwriting standards and was not nearly as thorough in getting documentation from or about borrowers as the underwriting guidelines set forth herein implied. The emphasis was on getting loans done – meaning more volume led to higher fees and profits for WMB, and therefore, WaMu. Exceptions not only were granted in situations where compensating factors existed but also were extensively granted to maintain loan volume.

B. The Offering Documents Included Material Misstatements and Omitted Material Information Regarding the Risks Associated with Appraisals

1. The Registration Statement

144. The Registration Statement contained a section purportedly describing the decline in values that “may” result since the appraisals were obtained.

In addition, for some mortgage loans, the values of the related mortgaged properties may have substantially declined since the appraisals were obtained in connection with the origination of those mortgage loans. In the event that such a mortgage loan becomes delinquent and is liquidated, a larger loss may occur than would otherwise be expected based on the appraised value.

WMAAC, Form S-3/A Registration Statement, filed April 9, 2007, at 6.

145. The purported “Risk Factors” section in the Registration Statement also stated that inaccurate appraisals may lead to an increase in defaults and an increase in losses allocated to the Certificates.

Moreover, some underwriting standards may result in a less accurate assessment of the borrower's credit standing and repayment ability and/or the value and adequacy of the related property as collateral. As a result, there may be a greater likelihood of default on mortgage loans originated under some underwriting standards, and a greater likelihood that the related mortgaged properties will fail to provide adequate security in the event of such default. In turn, there may be a greater likelihood that losses, to the extent not covered by credit support, will be allocated to the related securities.

WMAAC, Form S-3/A Registration Statement, filed April 9, 2007, at 7.

146. The Registration Statement contained a section which stated that WMAAC's limited and no documentation programs were based entirely on appraisal values of the mortgaged property.

Limited documentation and no documentation mortgage loans are mortgage loans which require less documentation and verification than other mortgage loans, and which may be originated with minimal or no investigation into the related borrower's credit history and income profile by the originator. The underwriting for limited documentation or no documentation loans may be based primarily or entirely on an appraisal or other valuation of the mortgaged property and the LTV or combined LTV ratio at origination.

WMAAC, Form S-3/A Registration Statement, filed April 9, 2007, at 33.

147. The Registration Statement contained a section which described the requirements of an appraisal for each mortgaged property to determine the adequacy of the property as collateral.

In determining the adequacy of the property as collateral, an appraisal is made of each property considered for financing. The appraiser, or an agent on its behalf, is generally required to personally inspect the property and verify that it is in adequate condition and that construction, if new, has been substantially completed. However, in some cases an automated valuation method may be used, under which the appraiser does not personally inspect the property but instead relies on public records regarding the mortgaged property and/or neighboring properties. In either case, the appraisal normally is based upon a market data analysis of recent sales of comparable properties and, when deemed applicable, a replacement cost analysis based on the current cost of constructing or purchasing a similar property. Some of the mortgage loans may be re-underwritten by a mortgage loan seller.

WMAAC, Form S-3/A Registration Statement, filed April 9, 2007, at 45.

148. The excerpts from the Registration Statement in the above paragraphs contained material misstatements and omission of fact because the appraisals WaMu's appraiser, eAppraiseIT, performed for WaMu did not portray accurate market data and valuation. In order to earn business from WaMu eAppraiseIT artificially inflated appraisal values to "hit" the LTV ratios necessary to allow more loans to close and be eligible for pooling and sale to the securitization market.

2. The Prospectus Supplements

149. The Prospectus Supplements issued in connection with each of the Offerings contained statements which were purported "Risk Factors" regarding the appraisal of the properties underlying mortgage loan collateral. These purported "Risk Factors" stated, in part:

In addition, for some mortgage loans, the values of the related mortgaged properties may have substantially declined since the appraisals were obtained in connection with the origination of those mortgage loans. In the event that such a mortgage loan becomes delinquent and is liquidated, a larger loss may occur than would otherwise be expected based on the appraised value.

* * *

Moreover, some underwriting standards may result in a less accurate assessment of the borrower's credit standing and repayment ability and/or the value and adequacy

of the related property as collateral. As a result, there may be a greater likelihood of default on mortgage loans originated under some underwriting standards, and a greater likelihood that the related mortgaged properties will fail to provide adequate security in the event of such default. In turn, there may be a greater likelihood that losses, to the extent not covered by credit support, will be allocated to the related securities.

WAMU Series 2007-HY5 Prospectus Supplement, Form 424B5, filed April 23, 2007, at 6-7; *see also*, Prospectus Supplement, Form 424B5, for:

Series	Page Number	Series	Page Number
WAMU 2007 - HY6	6-7	WMALT 2007 - OA5	6-7
WAMU 2007 - HY7	6-7	WMALT 2007 - OC1	6-7
WAMU 2007 - OA4	6-7	WMALT 2007 - OC2	6-7
WAMU 2007 - OA5	6-7	WMALT 2007 - 3	6-7
WAMU 2007 - OA6	6-7	WMALT 2007 - 4	6-7
WMALT 2007 - OA4	6-7	WMALT 2007 - 5	6-7

150. The excerpts from the Prospectus Supplements in the above paragraphs contained material misstatements and omissions of fact because the appraisals WaMu's appraiser, eAppraiseIT, performed for WaMu did not portray accurate market data and valuation. In order to earn business from WaMu eAppraiseIT artificially inflated appraisal values to "hit" the LTV ratios necessary to allow more loans to close and be eligible for pooling and sale to the securitization market.

151. The Prospectus Supplements also contained the following language regarding "review appraisals":

The underwriting standards of the mortgage loan originator or mortgage loan seller may require an internal review of the appraisal (a "review appraisal") used to determine the loan-to-value of a mortgage loan which may be performed by underwriters rather than a licensed appraiser. Where the review appraisal results in a valuation of the mortgaged property that is less than a specified percentage of the original appraisal, the loan-to-value ratio of the related mortgage loan will be based on the review appraisal.

WAMU Series 2007-HY5 Prospectus Supplement, Form 424B5, filed April 23, 2007, at 32-33; *see also*, Prospectus Supplement, Form 424B5, for:

Series	Page Number	Series	Page Number
WAMU 2007 - HY6	32-33	WMALT 2007 - OA5	32-33

WAMU 2007 - HY7	32-33	WMALT 2007 - OC1	32-33
WAMU 2007 - OA4	32-33	WMALT 2007 - OC2	32-33
WAMU 2007 - OA5	32-33	WMALT 2007 - 3	32-33
WAMU 2007 - OA6	32-33	WMALT 2007 - 4	32-33
WMALT 2007 - OA4	32-33	WMALT 2007 - 5	32-33

152. Furthermore, the Prospectus Supplements, with respect to the importance of the appraisal in underwriting the mortgage collateral on less than “full-documentation” loans, stated:

Limited documentation and no documentation mortgage loans are mortgage loans which require less documentation and verification than other mortgage loans, and which may be originated with minimal or no investigation into the related borrower’s credit history and income profile by the originator. The underwriting for limited documentation or no documentation loans may be based primarily or entirely on an appraisal or other valuation of the mortgaged property and the LTV or combined LTV ratio at origination.

WAMU Series 2007-HY5 Prospectus Supplement, Form 424B5, filed April 23, 2007, at 33; *see also*, Prospectus Supplement, Form 424B5, for:

Series	Page Number	Series	Page Number
WAMU 2007 - HY6	33	WMALT 2007 - OA5	33
WAMU 2007 - HY7	33	WMALT 2007 - OC1	33
WAMU 2007 - OA4	33	WMALT 2007 - OC2	33
WAMU 2007 - OA5	33	WMALT 2007 - 3	33
WAMU 2007 - OA6	33	WMALT 2007 - 4	33
WMALT 2007 - OA4	33	WMALT 2007 - 5	33

153. The excerpts from the Prospectus Supplements in the above paragraph contained material misstatements and omission of fact because, due to the artificially inflated appraisals (as detailed above) mortgages were extended to borrowers whose true LTV ratio did not support the amount of the mortgage loan. Moreover, contrary to the statement that these many of the mortgages were in fact “limited documentation,” or not “full documentation” loans, they were not extended to borrowers who have a credit history that demonstrates an established ability to repay indebtedness in a timely fashion. In fact, the originators implemented policies designed to extend mortgages to borrowers regardless of whether they were able to meet their obligations under the mortgage such as:

- Coaching borrowers to misstate their income on loan applications to qualify for mortgage loans under the originators' underwriting standards, including directing applicants to no-documentation loan programs when their income was insufficient to qualify for full documentation loan programs.
- Steering borrowers to more expensive loans that exceeded their borrowing capacity.
- Encouraging borrowers to borrow more than they could afford by suggesting NINA and SISA loans when they could not qualify for full documentation loans based on their actual incomes.
- Approving borrowers based on "teaser rates" for loans despite knowing that the borrower would not be able to afford the "fully indexed rate" when the adjustable rate adjusted.
- Allowing non-qualifying borrowers to be approved for loans under exceptions to the originators' underwriting standards based on so-called "compensating factors" without requiring documentation for such compensating factors.
- Incentivizing their employees to approve borrowers under exceptions to the originators' underwriting policies.
- Failing to determine whether stated income or stated assets were reasonable.

C. The Offering Documents Included Material Misstatements and Omitted Material Information Regarding Credit Support

154. "Credit enhancement" refers to excess mortgage loan collateral which provides support to the mortgage collateral underlying the Offered Certificates and generates additional interest to protect security holders in the event of borrower default or other event which may impair the collateral underlying the certificates.

155. With respect to credit enhancement, the Registration Statement provided explanations of the methods used by WaMu in the Certificate Offerings as follows:

CREDIT ENHANCEMENTS

Subordination. The senior certificates will receive all distributions of interest and principal that they are entitled to receive on each distribution date before the subordinate certificates receive any distributions on that distribution date. This provides credit enhancement to the senior certificates. In a similar fashion, each class of subordinate certificates will provide credit enhancement to all other subordinate certificates with lower numerical class designations.

Shifting of Interests. The senior certificates generally will receive their pro rata

1 share of scheduled principal payments received on the mortgage loans in the related
2 loan group on each distribution date. In addition, unless credit enhancement to the
3 senior certificates has reached a specified level and the delinquencies and losses
4 received on the mortgage loans in the related loan group do not exceed specified
5 limits, the senior certificates in the aggregate will receive 100% of all principal
6 prepayments received on the mortgage loans in the related loan group, net of any
7 portion thereof applied to reduce negative amortization, until the tenth anniversary of
8 the first distribution date. During the next four years the senior certificates in the
9 aggregate will generally receive a disproportionately large, but decreasing, share of
principal prepayments. This will result in a quicker return of principal to the senior
certificates and increases the likelihood that holders of the senior certificates will be
paid the full amount of principal to which they are entitled. For a more detailed
description of how principal prepayments are allocated among the senior certificates
and the subordinate certificates, see 'Description of the Certificates -- Principal
Prepayments' in this prospectus supplement

10 WMAAC, Form S-3/A Registration Statement, filed April 9, 2007, at S-16.

11 156. Each Prospectus Supplement set forth on the first page of the document a general
12 description of the Credit Enhancement supporting the Offering. The Prospectus Supplement for the
13 WAMU Series 2007-HY5 Certificate Offering stated as follows:
14

15 Credit enhancement for the offered certificates is being provided by five classes of
16 privately offered certificates, which have an aggregate principal balance of
approximately \$41,700,658. Credit enhancement for the offered senior certificates is
being provided by five classes of offered subordinate certificates.

17 WAMU Series 2007-HY5 Prospectus Supplement, Form 424B5, filed April 23, 2007, at Cover.
18

19 157. Furthermore, the Prospectus Supplements each contained further explanation of the
20 credit enhancement specific to each of the Offerings. For example, the Prospectus Supplement for
21 the WAMU Series 2007-HY5 Certificate Offering provided that credit enhancement would include:

22 CREDIT ENHANCEMENTS

23 **Subordination.** The Senior Certificates receive distributions of interest and principal
24 to which they are entitled before distributions of interest or principal to the
25 Subordinate Certificates. No class of Subordinate Certificates will receive
26 distributions of interest or principal on any Distribution Date until the Subordinate
27 Certificates senior to that class have received all distributions of interest and
principal due on or before the Distribution Date. See "Description of the
Certificates—Priority of Distributions" in this prospectus supplement.

Losses on mortgage loans in a loan group will be allocated, in each case, until their Class Principal Balances have been reduced to zero, first, to the Junior Subordinate Certificates in reverse numerical order; second, to the Class B-9 Certificates; third, to the Class B-8 Certificates; fourth, to the Class B-7 Certificates; fifth, to the Class B-6 Certificates; sixth, to the Class B-5 Certificates; seventh, to the Class B-4 Certificates; eighth, to the Class B-3 Certificates; ninth, to the Class B-2 Certificates; tenth, to the Class B-1 Certificates; and eleventh, to the Senior Certificates as described under “Description of the Certificates—Subordination and Allocation of Losses” in this prospectus supplement; provided, however, that after the Class Principal Balances of all of the Subordinate Certificates have been reduced to zero, any loss that would otherwise be allocated to the Class 1A-1A Certificates will be allocated to the Class 1A-1B Certificates, until its Class Principal Balance has been reduced to zero; provided, further, that losses allocated to principal and interest that would be allocable to the Class 2A-1A Certificates will be allocated (i) first, to the Class 2A-1C Certificates, until its Class Principal Balance has been reduced to zero and (ii) second, to the Class 2A-1B Certificates, until its Class Principal Balance has been reduced to zero; and provided, further, that any loss that would otherwise be allocated to the Class 2A-1B Certificates will be allocated to the Class 2A-1C Certificates, until its Class Principal Balance has been reduced to zero.

Shifting of Interests. The Senior Certificates in a Certificate Group in the aggregate generally will receive their pro rata share of scheduled principal payments received with respect to the mortgage loans in the related loan group on each Distribution Date. In addition, unless credit enhancement to the Senior Certificates has reached a specified level and the delinquencies and losses on the mortgage loans do not exceed specified limits, the Senior Certificates in a Certificate Group will receive 100% of principal prepayments received with respect to the mortgage loans in the related loan group, net of any portion thereof applied to reduce negative amortization, until the tenth anniversary of the first Distribution Date. During the next four years, the Senior Certificates generally will receive a disproportionately large, but decreasing, share of principal prepayments received with respect to the mortgage loans in the related loan group. This will result in an acceleration of the amortization of the Senior Certificates, enhancing the likelihood that holders of the Senior Certificates will be paid the full amount of principal to which they are entitled. See the second and third paragraphs of “Description of the Certificates—Distributions of Principal—Principal Prepayments” in this prospectus supplement for important limitations on the accelerated amortization of the Senior Certificates.

WAMU Series 2007-HY5 Prospectus Supplement, Form 424B5, filed April 23, 2007, at S-13; *see also*, Prospectus Supplement, Form 424B5, for:

Series	Page Number	Series	Page Number
WAMU 2007 - HY6	S-13-14	WMALT 2007 - OA5	S-15
WAMU 2007 - HY7	S-12	WMALT 2007 - OC1	S-10-11
WAMU 2007 - OA4	S-16-17	WMALT 2007 - OC2	S-10
WAMU 2007 - OA5	S-17	WMALT 2007 - 3	S-12

WAMU 2007 - OA6	S-17	WMALT 2007 - 4	S-11
WMALT 2007 - OA4	S-15	WMALT 2007 - 5	S-11

158. The excerpts from the Registration Statement and Prospectus Supplements in the above paragraphs contained material misstatements and omission of fact because:

(a) These statements failed to disclose that the Rating Agencies largely determined the amount and kind of Credit Support or Credit Enhancement to be provided for each Certificate, both before and after the Rating Agencies were formally “engaged” by WaMu, in order for the Certificates to be assigned predetermined ratings.

(b) These statements also failed to disclose that the amounts and kind of Credit Support that was determined to be appropriate for the Certificates, as specifically set forth in each Prospectus Supplement, was faulty, erroneous and inaccurate since the models used to determine such had not been updated properly and failed to accurately or adequately reflect the performance of the underlying collateral.

(c) In terms of what the statements purport to convey to the investor, specifically that credit support levels are determined by the exposure to risk of default or delinquency by the underlying borrowers, these statements were far from the truth. In fact, credit enhancement levels were set at the absolute minimum level that was required not to protect investors, but rather to achieve and be awarded the highest possible credit rating from the Rating Agencies engaged on the securitization.

**D. The Prospectus Supplements Materially Misstated the True
Loan-to-Value Ratios Associated with the Underlying Mortgages**

159. The Registration Statement included language regarding the importance of accurate LTV ratios in forming the underlying mortgage pool. *See ¶¶146-48, supra.*

160. Each of the Prospectus Supplements contained detailed information about the LTV ratios of the loans underlying the Trusts. In a series of charts, investors were provided with LTV

ratio data, including information about the number of loans containing LTV ratios within a given range. The following charts, taken from the Prospectus Supplements summarized the LTV characteristics of the mortgage pool underlying the Certificates in the following way, with only minor, if any, variation among the different Prospectus Supplements:

Combined Loan-to-Value Ratios of the First and Second Liens at Origination of the Group 1 Loans

Combined Loan-to-Value Ratio (%)	Number of Mortgage Loans	Aggregate Principal Balance of the Mortgage Loans as of the Cut-Off Date	Percentage of the Aggregate Principal Balance of all Group 1 Loans
No Second Lien	390	\$ 327,292,809.37	65.56 %
0.01-60.00	15	13,677,129.69	2.74
60.01-65.00	4	2,887,000.00	0.58
65.01-70.00	17	17,119,774.00	3.43
70.01-75.00	16	11,775,100.00	2.36
75.01-80.00	18	17,000,404.59	3.41
80.01-85.00	20	13,818,954.71	2.77
85.01-90.00	128	94,905,033.38	19.01
Over 90.00	1	770,000.00	0.15
Total	609	\$ 499,246,205.74	100.00 %

WAMU Series 2007-HY5 Prospectus Supplement, Form 424B5, filed April 23, 2007, at S-105-6, S-108, S-110, S-113, S-116, S-119, S-122, S-125; *see also*, Prospectus Supplement, Form 424B5, for:

Series	Page Number	Series	Page Number
WAMU 2007 - HY6	S-102, S-105, S-108, S-111, S-114, S-117	WMALT 2007 - OA5	S-111
WAMU 2007 - HY7	S-95, S-101, S-98, S-101, S-104	WMALT 2007 - OC1	S-95
WAMU 2007 - OA4	S-119	WMALT 2007 - OC2	S-93
WAMU 2007 - OA5	S-122	WMALT 2007 - 3	S-109
WAMU 2007 - OA6	S-122	WMALT 2007 - 4	S-99
WMALT 2007 - OA4	S-113	WMALT 2007 - 5	S-98

161. The excerpts from the Prospectus Supplements in the above paragraph contained

1 material misstatements and omission of fact because:

2 (a) The appraisal value of the properties underlying the mortgage loans and
3 borrower incomes and credit were grossly inaccurate and significantly inflated.

4 (b) Furthermore, due to hidden incentives, the stated sales price of properties
5 underlying the mortgage loans did not accurately reflect the true value of the properties.
6 These inflated appraisals and misleading sales price figures were used to form the LTV ratios
7 set forth in the Prospectus Supplements. Incorporating an inflated appraisal into the LTV
8 calculation will result in a lower LTV ratio for a given loan. For example, if a borrower
9 seeks to borrow \$350,000 to purchase a house worth \$400,000, the LTV ratio is
10 \$350,000/\$400,000, or 88 percent. If, however, the appraised value of the house is
11 artificially increased to \$450,000, the LTV ratio drops to just 78 percent
12 (\$350,000/\$450,000).
13

14 (c) Due to the inflated appraisals, the LTV ratios listed in the Prospectus
15 Supplements were artificially low, making it appear that the loans underlying the trusts were
16 less risky than they really were. Due to the fact that such a large percentage of each pool of
17 underlying mortgage loans contained mortgage loans on properties which had more than one
18 mortgage (*i.e.*, a first and second lien mortgage), understated and misleading LTV ratios had
19 a direct correlation to the skyrocketing delinquency and default rates within the first six
20 months of the Offerings. Moreover, since many of the loans underlying the Certificates were
21 hybrid adjustable rates with biannual adjustments to interest rates and were made to low-
22 quality borrowers, the resulting payments would be considerably more than what they could
23 have been able to afford.
24

25
26 **E. The Prospectus Supplements Misstated the Certificates' True Credit Ratings**

27 162. The Registration Statement and Prospectus Supplements contained statements
28

1 regarding the ratings of the Certificates. The Registration Statement referred the investor to the
2 Prospectus Supplements for specific information as to the ratings for each of the Certificates –
3 stating that “It is a condition to the issuance of the offered certificates that they receive the ratings
4 from [the Ratings Agencies] as indicated.”

5
6 163. Each of the Prospectus Supplements provided: (1) the Rating Agencies’ actual rating
7 for each class of Offered Certificate within each Offering; or (2) stated that the Certificates in each
8 class would not be offered unless they received ratings from the Rating Agencies that were at least as
9 high as those set forth in the Prospectus Supplement. All of the ratings set forth in all of the
10 Prospectus Supplements were within the “Investment Grade” range of the Rating Agencies, namely
11 Moody’s (Aaa through Baa3) and S&P (AAA through BBB), and the vast majority of Offered
12 Certificates, over 93% of the aggregate Offering amount, received the highest rating of AAA.

13
14 164. The following charts, taken from the Prospectus Supplement for the WAMU Series
15 2007-HY5 Certificate Offering are examples of this representation:
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Class	Rating Agency	
	S&P	Fitch
1-A1	AAA	AAA
1-A2	AAA	AAA
2-A1	AAA	AAA
2-A2	AAA	AAA
2-A3	AAA	AAA
2-A4	AAA	AAA
2-A5	AAA	AAA
2-AB	AAA	AAA
3-A1	AAA	AAA
3-A2	AAA	AAA
1-B-1	AA	Not Rated
1-B-2	A	Not Rated
1-B-3	BBB	Not Rated
2-B-1	AA	Not Rated
2-B-2	A	Not Rated
2-B-3	BBB	Not Rated
3-B-1	AA	Not Rated
3-B-2	A	Not Rated
3-B-3	BBB	Not Rated
R	AAA	AAA

WAMU Series 2007-HY5 Prospectus Supplement, Form 424B5, filed April 23, 2007, at S-100.

Class	Rating Agency	
	S&P	Fitch
1-A1	AAA	AAA
1-A2	AAA	AAA
2-A1	AAA	AAA
2-A2	AAA	AAA
2-A3	AAA	AAA
2-A4	AAA	AAA
2-A5	AAA	AAA
2-AB	AAA	AAA
3-A1	AAA	AAA
3-A2	AAA	AAA
1-B-1	AA	Not Rated
1-B-2	A	Not Rated
1-B-3	BBB	Not Rated
2-B-1	AA	Not Rated
2-B-2	A	Not Rated
2-B-3	BBB	Not Rated
3-B-1	AA	Not Rated
3-B-2	A	Not Rated
3-B-3	BBB	Not Rated
R	AAA	AAA

WAMU Series 2007-HY5 Prospectus Supplement, Form 424B5, filed April 23, 2007, at S-16; *see also*, Prospectus Supplement, Form 424B5, for:

Series	Page Number	Series	Page Number
WAMU 2007 - HY6	S-16	WMALT 2007 - OA5	S-17
WAMU 2007 - HY7	S-14	WMALT 2007 - OC1	S-12
WAMU 2007 - OA4	S-19	WMALT 2007 - OC2	S-12
WAMU 2007 - OA5	S-20s	WMALT 2007 - 3	S-14
WAMU 2007 - OA6	S-20	WMALT 2007 - 4	S-13
WMALT 2007 - OA4	S-17	WMALT 2007 - 5	S-13

1 165. The excerpts from the Prospectus Supplements in the above paragraph contained
2 material misstatements and omission of fact because:

3 (a) The ratings assigned, as set forth in the Prospectus Supplements, were based
4 on outdated models, lowered ratings criteria, and inaccurate loan information as set forth in
5 great detail above. These flaws produced artificially high credit ratings for the Certificates,
6 making them appear less risky than they really were.

7
8 (b) The Rating Agencies were intricately involved in the securitization process,
9 as they were engaged and paid by WaMu in return for their granting substantially all of the
10 Certificates the highest investment grade rating. This process, referred to herein as “ratings
11 shopping” resulted in the Certificates being assigned artificially high credit ratings, making
12 them appear less risky than they really were.

13
14 **VII. CLASS ACTION ALLEGATIONS**

15 166. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules
16 of Civil Procedure on behalf of a class consisting of all persons or entities who acquired the
17 Certificates issued by the Issuers, as set forth in ¶37, above, pursuant and traceable to the materially
18 misleading Offering Documents (the “Class”). Excluded from the Class are Defendants, the officers
19 and directors of the Defendants, at all relevant times, members of their immediate families and their
20 legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a
21 controlling interest.

22
23 167. The members of the Class are so numerous that joinder of all members is
24 impracticable. While the exact number of Class members is unknown to Plaintiff at this time and
25 can only be ascertained through appropriate discovery, Plaintiff believes that there are hundreds of
26 members in the proposed Class. Record owners and other members of the Class may be identified
27 from records maintained by the Defendants and/or Relevant Non-Parties, including, but not limited
28

1 to, WMI, WMB, or their transfer agents and may be notified of the pendency of this action by mail,
2 using the form of notice similar to that customarily used in securities class actions. Billions of
3 dollars worth of Certificates were issued pursuant to the Registration Statement.

4 168. Plaintiff's claims are typical of the claims of the members of the Class as all members
5 of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is
6 complained of herein.

7 169. The Plaintiff will fairly and adequately protect the interests of the members of the
8 Class and have retained counsel competent and experienced in class and securities litigation.

9 170. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil
10 Procedure 23(b)(3)

11 171. Common questions of law and fact exist as to all members of the Class and
12 predominate over any questions solely affecting individual members of the Class. Among the
13 questions of law and fact common to the Class are: whether Defendants violated the state and federal
14 securities laws; whether the Offering Documents issued by Defendants to promote and sell the
15 Certificates negligently omitted and/or misrepresented material facts about the Certificates; and to
16 what extent the members of the Class have sustained damages and the proper measure of damages
17 for the class.

18 172. A class action is superior to all other available methods for the fair and efficient
19 adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the
20 damages suffered by individual Class members may be relatively small, the expense and burden of
21 individual litigation make it impossible for members of the Class to individually redress the wrongs
22 done to them. There will be no difficulty in the management of this action as a class action.
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VIII. CAUSES OF ACTION

FIRST CAUSE OF ACTION

**For Violations of § 11 of the Securities Act
(Against All Defendants)**

173. Plaintiff repeats and realleges each and every allegation above as if set forth in full herein, to the extent that such allegations do not sound in fraud.

174. This Cause of Action is brought pursuant to § 11 of the Securities Act, on behalf of Plaintiff and the Class, against all Defendants. This Cause of Action is predicated upon Defendants' strict liability for making material misleading statements and omitting material information from and in the Offering Documents.

175. The Offering Documents were materially misleading, contained untrue statements of material fact, omitted to state other facts necessary to make the statements not misleading, and omitted to state material facts required to be stated therein.

176. The Defendants are strictly liable to Plaintiff and the Class for making the misstatements and omissions in issuing the Certificates.

177. The Individual Defendants each signed the Registration Statement.

178. Defendant WCC acted as the underwriter in the sale of Certificates issued by the Issuing Trusts, directly and indirectly participated in the distribution of the Certificates, directly and indirectly solicited offers to purchase the Certificates, and directly and indirectly participated in drafting and disseminating the Offering Documents for the Certificates.

179. The Ratings Agencies were intricately involved in the sale of Certificates issued by the Issuing Trusts, directly and indirectly participated in the distribution of the Certificates, directly and indirectly solicited offers to purchase the Certificates, and directly and indirectly participated in drafting and disseminating the Offering Documents for the Certificates.

180. The Appraiser Defendants systematically provided appraisals that it certified as

1 “independent,” USPAP-compliant and otherwise in accordance with industry standards, for many, if
2 not most, of the mortgages underlying the Certificates. Without certified appraisals WaMu could
3 not have credibly specified the LTV ratios of the mortgages in the Offering Documents. Absent
4 USPAP compliant appraisals for the underlying mortgages, the Certificates could not have issued.

5 181. The Defendants owed to the Plaintiff and other Class members the duty to make a
6 reasonable and diligent investigation of the statements contained in the Offering Documents at the
7 time they became effective to ensure that such statements were true and correct and that there was no
8 omission of material facts required to be stated in order to make the statements contained therein not
9 misleading.
10

11 182. The Defendants knew, or in the exercise of reasonable care should have known, of the
12 material misstatements and omissions contained in or omitted from the Offering Documents as set
13 forth herein.
14

15 183. The Defendants failed to possess a reasonable basis for believing, and failed to make
16 a reasonable investigation to ensure, that statements contained in the Offering Documents were true
17 and/or that there was no omission of material facts necessary to make the statements contained
18 therein not misleading.

19 184. The Defendants issued and disseminated, caused to be issued or disseminated, and
20 participated in the issuance and dissemination of material statements to the investing public which
21 were contained in the Offering Documents, which made materially misleading statements and/or
22 omitted or failed to disclose material facts, as set forth above.
23

24 185. By reason of the conduct alleged herein, Defendants violated § 11 of the Securities
25 Act, and are liable to Plaintiff and the Class.

26 186. Plaintiff and other Class members acquired the Certificates pursuant and traceable to
27 the Registration Statement. At the time Plaintiff and Class members obtained their Certificates, they
28

1 did so without knowledge of the facts concerning the misstatements and omissions alleged herein.

2 187. Plaintiff and other Class members have sustained damages as a result of the wrongful
3 conduct alleged and the violations of the Defendants. Specifically, as set forth herein, the
4 delinquency, foreclosure, repossession and bankruptcy rates for the collateral underlying the
5 Certificates – arising from defective collateral and faulty origination practices – triggered
6 unprecedented downgrades of the Certificates’ credit ratings by the Rating Agencies and attendant
7 declines in the value of the Certificates.
8

9 188. By virtue of the foregoing, Plaintiff and other Class members are entitled to damages,
10 jointly and severally from each of the Defendants, as set forth in § 11 of the Securities Act.

11 189. This action is brought within one year after the discovery of the untrue statements and
12 omissions contained in the Offering Documents and within three years of the Certificates being
13 offered to the public. Despite the exercise of reasonable diligence, Plaintiff could not have
14 reasonably discovered the untrue statements and omissions in the Offering Documents at an earlier
15 time.
16

17 **SECOND CAUSE OF ACTION**

18 **For Violation of § 12(a)(2) of the Securities Act** 19 **(Against Defendant WCC)**

20 190. Plaintiff repeats and realleges each and every allegation above as if set forth in full
21 herein, to the extent that such allegations do not sound in fraud.

22 191. This Cause of Action is brought pursuant to § 12(a)(2) of the Securities Act, on behalf
23 of Plaintiff and the Class, against WCC.

24 192. Defendant WCC, as underwriter, promoted and sold the Certificates pursuant to the
25 defective and misleading Prospectus Supplements for its own financial gain. The Prospectus
26 Supplements contained untrue statements of material fact, omitted to state facts necessary to make
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1 statements not misleading, and concealed and failed to disclose material facts.

2 193. WCC owed to Plaintiff and the other Class members who purchased Certificates
3 pursuant to the Offering Documents, a duty to make a reasonable and diligent investigation of the
4 statements contained in the Offering Documents, to ensure that such statements were true and that
5 there was no omission of material fact necessary to make the statements contained therein not
6 misleading. WCC knew of, or in the exercise of reasonable care should have known of, the
7 misstatements and omissions contained in the Offering Documents, as set forth herein.
8

9 194. Plaintiff and other Class members purchased or otherwise acquired Certificates
10 pursuant to the defective Offering Documents from WCC. Plaintiff did not know, and in the
11 exercise of reasonable diligence could not have known, of the misrepresentations and omissions
12 contained in the Offering Documents.
13

14 195. By reason of the conduct alleged herein, WCC violated § 12(a)(2) of the Securities
15 Act, and is liable to Plaintiff and other Class members who purchased Certificates pursuant to the
16 Offering Documents.

17 196. Plaintiff and other Class members were damaged by WCC's wrongful conduct.
18 Those Class members who have retained their Certificates have the right to rescind and recover the
19 consideration paid for their Certificates, as set forth in § 12(a)(2) of the Securities Act. Those Class
20 members who have sold their Certificates are entitled to rescissory damages, as set forth in §
21 12(a)(2) of the Securities Act. Specifically, as set forth herein, the delinquency and default rates for
22 the collateral underlying the Certificates – arising from defective collateral and faulty origination
23 practices – triggered unprecedented downgrades of the Certificates' credit ratings by the Rating
24 Agencies and attendant declines in the value of the Certificates.
25

26 197. This action is brought within one year after the discovery of the untrue statements and
27 omissions contained in the Offering Documents, within one year after reasonable discovery of the
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1 untrue statements and material omissions and within three years of when the Certificates were sold
2 to the public. Despite the exercise of reasonable diligence, Plaintiff could not have reasonably
3 discovered the untrue statements and omissions in the Offering Documents at an earlier time.

4 **THIRD CAUSE OF ACTION**

5 **For Violations of § 15 of the Securities Act** 6 **(Against Individual Defendants and WCC)**

7 198. Plaintiff repeats and realleges each and every allegation above as if set forth in full
8 herein, to the extent that such allegations do not sound in fraud.

9 199. This Cause of Action is brought pursuant to § 15 of the Securities Act against the
10 Individual Defendants and Defendant WCC.

11 200. Each of the Individual Defendants, by virtue of his or her control, ownership, offices,
12 directorship, and specific acts set forth above was, at the time of the wrongs alleged herein, a
13 controlling person of WMAAC and the Issuing Trusts within the meaning of Section 15 of the
14 Securities Act. Each of the Individual Defendants had the power to influence, and exercised that
15 power and influence, to cause WMAAC and the Issuing Trusts to engage in violations of the
16 Securities Act, as described above.

17 201. WCC, by virtue of its control, influence, participation and solicitation of offers to
18 purchase the Certificates and specific acts set forth above was, at the time of the wrongs alleged
19 herein, a controlling person of WMAAC and the Issuing Trusts within the meaning of Section 15 of
20 the Securities Act. The Underwriter Defendant had the power to influence, and exercised that power
21 and influence, to cause WMAAC and the Issuing Trusts to engage in violations of the Securities Act,
22 as described above.

23 202. The Individual Defendants' and WCC's control, position and influence made them
24 privy to, and provided them with actual knowledge of, the material facts and omissions concealed
25

1 from Plaintiff and the other Class members.

2 203. Each of the Individual Defendants was a participant in the violations alleged herein,
3 based on their having prepared, signed or authorized the signing of the Registration Statement and
4 having otherwise participated in the consummation of the Offerings detailed herein. The Defendants
5 named herein were responsible for overseeing the formation and operation of the Issuing Trusts,
6 including routing payments from the borrowers to investors.
7

8 204. Individual Defendants prepared, reviewed and/or caused the Registration Statement
9 and Prospectus Supplements to be filed and disseminated.

10 205. Since the Defendants named herein controlled the ultimate decision of which
11 mortgage loans would be included and excluded from the securitized pools of loans as well as the
12 ultimate amount of credit enhancement required in order for the Certificates to be sold to investors,
13 they controlled all material aspects relating to the acquisition, structure and sale of the Certificates
14 and thus, the activities of the Issuing Trusts and Individual Defendants within the meaning of
15 Section 15 of the Securities Act.
16

17 206. By virtue of the wrongful conduct alleged herein, the Individual Defendants and
18 WCC are liable to Plaintiff and the other Class members for the damages sustained. Specifically, as
19 set forth herein, the delinquency and default rates for the collateral underlying the Certificates -
20 arising from defective collateral and faulty origination practices – triggered unprecedented
21 downgrades of the Certificates' credit ratings by the Rating Agencies and attendant declines in the
22 value of the Certificates.
23

24 **FOURTH CAUSE OF ACTION**

25 **For Violations of the Washington State Securities Act** 26 **Seller/ Primary Liability, RCW § 21.20.010 (2) AND (3); RCW § 21.20.430(1)** 27 **(Against All Defendants)**

28 207. Plaintiff repeats and realleges each and every allegation above as if set forth in full

1 herein.

2 208. For their Fourth Claim of relief, Plaintiff alleges each Defendant is liable as a seller of
3 the Certificates under RCW 21.20.430(1), for violations of RCW 21.20.010 (2) and (3). These
4 violations of the Washington State Security Act (“WSSA”), RCW 20.21 *et seq.*, sound in negligence
5 and not in fraud.
6

7 **A. The Certificates are Securities Covered by WSSA**

8 209. The Certificates are a security within the meaning of RCW 21.20., *et seq.*

9 210. Washington state has more substantive contacts with the offer and sale of the
10 Certificates than any other jurisdiction. In particular, at all relevant times, the sponsor, issuer, and
11 underwriter of the Certificates resided and were headquartered in Seattle, Washington. Thus,
12 mortgage origination and acquisition, securitization, due diligence, preparation of the Offering
13 Documents and the marketing and sale of the Certificates was primarily managed and controlled,
14 and, in large part conducted, from Seattle. In addition, the Rating Agencies and Appraiser
15 Defendants conducted significant business in Washington, including business related directly to the
16 Certificates. Such business, on information and belief, was conducted pursuant to contracts made
17 with WaMu Defendants executed in Washington. Further, the trustees of the Issuing Trusts
18 contracted with WMB at the time of sale, for on-going servicing of the mortgage assets underlying
19 the Certificates. Finally, on information and belief, the bulk of the mortgage loans underlying the
20 Certificates are physically located in Washington.
21
22

23 **B. Each Defendant is a Seller of the Certificates under RCW 21.20.430(1)**

24 **The WaMu Defendants**

25 211. WMACC, the Individual Defendants and WCC (the “WaMu Defendants”) are each a
26 seller within the meaning of 21.20.430(1) because they (1) directly or indirectly offered and sold the
27 Certificates to Plaintiff and the Class; and/or (2) their actions were a substantial contributing factor
28

1 to the offer and sale of the Certificates.

2 212. Activities of Defendant WMAAC that constitute an offer, a sale or a factor that
3 substantially contributed to the offer and sale of the Certificates include, but are not limited to, the
4 following:

5 - WMAAC was the issuer of the Certificates and prepared and filed the
6 Offering Documents with the SEC.

7 - WMAAC was also the depositor in the securitization process and sold the
8 Certificates to the underwriter, WCC.
9

10
11 213. Activities of Defendant WCC that constitute an offer, a sale or a factor that
12 substantially contributed to the offer and sale of the Certificates include, but are not limited to, the
13 following:

14 - WCC was the underwriter of the Certificates and assisted in preparation of the
15 Offering Documents.

16 - As the underwriter, WCC was responsible for the due diligence required to
17 verify the accuracy and completeness of the information uniformly presented to Plaintiff and
18 the Class through the Offering Documents.

19 - WCC promoted and sold the Certificates to Plaintiff and the Class.
20

21 214. Activities of the Individual Defendants that constitute an offer, a sale or a factor that
22 substantially contributed to the offer and sale of the Certificates include, but are not limited to the
23 fact that each signed the Offering Documents.

24 215. The WaMu Defendants collectively controlled or contracted for virtually every aspect
25 of the mortgage origination, securitization, sales, and servicing related to the Certificates. Discovery
26 is needed to verify precisely which entities and persons controlled or substantively participated in
27
28

1 each specific aspect of the process. As such, Plaintiff alleges, on information and belief, that, in
2 addition to their respective activities described in herein, all of the WaMu Defendants substantively
3 participated in each of the following activities such that they were a substantially contributing factor
4 to the offer and sale of the Certificates:

5 - Review of the mortgages, directly or indirectly, to ensure they were suitable
6 for securitization.

7 - Structuring the pools of mortgages and other assets (*e.g.*, credit
8 enhancements) that collateralized the Certificates.

9 - Pre-shopping proposed mortgage and asset packages to the Ratings Agency
10 Defendants and contracting or working with the agencies to obtain final Certificate ratings
11 for publication in the Offering Documents.

12 - Promoting and marketing the Certificates to Plaintiff and the Class.

13
14
15 The Ratings Agency Defendants

16 216. Moody's and S&P (the "Ratings Agency Defendants") are each a seller because their
17 actions were a substantial contributing factor to the offer and sale of the Certificates.

18 217. The Ratings Agency Defendants systematically and by uniform methods purported to
19 provide "independent" certification that the Certificates were of a particular investment grade.

20 These rating were submitted to the SEC and published in the Offering Documents.

21 218. Independent ratings are required by the SEC for securities to issue and are relied on
22 by investors to evaluate a given investment product. Absent the certified ratings, the Certificates
23 could not have issued. Thus, the conduct of the Ratings Agency Defendants was a substantially
24 contributing factor to the offer and sale of the Certificates.

25 219. Each of the Ratings Agency Defendants also, systematically and using uniform
26 methods, participated in structuring the various mortgage pools and other assets that collateralized
27
28

1 each series of Certificates by specifying the amount of credit enhancements or other assets needed
2 for the Certificates to qualify for a specified rating. If the Certificates were not supported by
3 sufficient assets to yield a suitable rating, the Certificates could not have issued. Thus, their conduct
4 was a substantially contributing factor to the offer and sale of the Certificates.

5 220. The participation of the Ratings Agency Defendants went beyond provision of routine
6 professional services because they knew WaMu would provide the ratings to investors to induce
7 them to purchase the Certificates.
8

9 221. In addition, Plaintiff alleges each Ratings Agency Defendant negligently (1) reduced
10 or relaxed the rating standards applied to the Certificates; (2) delayed upgrading the models they
11 used to rate the Certificates when they knew or should have known the models were understating the
12 credit risk for the Certificates; and (3) continued to represent they were “independent” when they
13 knew they had allowed WaMu inappropriate influence over their ratings process; and did so because
14 they had become more invested in receiving future ratings contracts from WaMu than in fulfilling
15 their duty to protect Plaintiff and the Class and the integrity of the ratings process.
16

17 The Appraiser Defendants

18 222. The Appraiser Defendants are a seller because their actions were a substantial
19 contributing factor to the offer and sale of the Certificates.
20

21 223. The Appraiser Defendants, pursuant to agreements with WaMu Defendants,
22 systematically provided appraisals that it certified as “independent,” USPAP-compliant and
23 otherwise in accordance with industry standards, for many, if not most, of the mortgages underlying
24 the Certificates.

25 224. Without certified appraisals the WaMu Defendants could not have credibly specified
26 the LTV ratios of the mortgages in the Offering Documents. Absent USPAP compliant appraisals
27 for the underlying mortgages, the Certificates could not have issued.
28

1 225. The participation of the Appraiser Defendants went beyond provision of routine
2 professional services because they knew, directly from WaMu Defendants and through their
3 involvement with the mortgage industry generally, that WaMu would provide the LTV ratios that
4 flowed directly and necessarily from the appraisals to investors to induce them to purchase the
5 Certificates.

6
7 226. In addition, Plaintiff alleges the Appraiser Defendants negligently (1) reduced or
8 relaxed their appraisal standards for WaMu; and (2) continued to represent they were “independent”
9 when they knew they had allowed WaMu inappropriate influence over the appraisal process ; and
10 they did so because they had become more invested in receiving future contracts from WaMu for
11 appraisal services than in fulfilling their duty to provide accurate unbiased appraisals.

12 **C. All Defendants violated RCW 21.21.010(2)**

13
14 227. The Offering Documents omit or contain extensive and uniform sets of material
15 omissions and misrepresentations that any reasonable investor would have deemed important in
16 deciding whether to purchase the Certificates. Such omissions and misrepresentations are fully
17 described herein.

18 228. Each Defendant violated RCW 21.20.010(2) because it systematically: (1) made or
19 caused to be made some or all of the uniform untrue statements of material fact, and/or (2) omitted
20 or caused to be omitted some or all of the uniform sets of material facts, disclosure of which was
21 necessary, under these circumstances, to make the statements made not misleading.

22
23 WaMu Defendants

24 229. By virtue of their respective roles as sponsor, issuer, underwriter and signatories of
25 the Offering Documents each of the WaMu Defendants are liable for all the material
26 misrepresentations and omissions contained in or omitted from the Offering Documents, regardless
27 of who originally made the misstatement or failed to provide the omitted material.

1 230. In addition, Plaintiff alleges each of the WaMu Defendants directly or indirectly (1)
2 made the material misrepresentations and omitted material information from the Offering
3 Documents, and/or (2) systematically and uniformly failed to perform adequate due diligence to
4 ensure the information in the Offering Documents was accurate and complete such that it would not
5 be misleading to investors.

6
7 Ratings Agency Defendants

8 231. The Ratings Agency Defendants are liable for the uniform sets of material
9 misstatements and omissions in the Offering Documents regarding their certified ratings of the
10 Certificates.

11 232. Each of these Defendants knew or should have known the ratings were sought and
12 provided to allow the offer and sale of the Certificates as a secured investment product and that their
13 statements and omissions would be included in, or wrongly omitted from, the Offering Documents.

14 233. The material information the Ratings Agency Defendants knew and failed to disclose
15 includes, but is not limited to:

16
17 - The Rating Agency Defendants' independence from WaMu was
18 compromised due to its pre-certification involvement in structuring the assets of the Issuing
19 Trusts; its dependence on WaMu for future ratings contracts, and the degree of WaMu
20 involvement and influence over the ratings process.

21
22 - The models the ratings Agency Defendants systematically used to develop
23 ratings and specify needed credit enhancements for the Certificates were based on mortgages
24 of a materially different type than the mortgages securitized for these offerings such that
25 there was a significant risk the had materially understated the credit risk associated with the
26 Certificates, and the Certificates were not worthy of the ratings they had certified.

1 The Appraiser Defendants

2 234. The Appraiser Defendants are liable for the uniform sets of material misstatements
3 and omissions in the Offering Documents regarding, and immediately derived from, the appraisals
4 they certified for the mortgages underlying the Certificates.

5 235. These Defendants knew or should have known the appraisals were sought and
6 provided to allow the offer and sale of the Certificates as a secured investment product and that their
7 statements and omissions would be included in, or wrongly omitted from, the Offering Documents.

8 236. The material information the Appraiser Defendants knew and failed to disclose
9 includes, but is not limited to, the following:
10

11 - The Appraiser Defendants independence from WaMu was compromised due
12 to its dependence on WaMu for future appraisal contracts, and the degree of WaMu
13 involvement and influence over the appraisal process;

14 - There is a significance risk the LTV ratios provided in the Offering
15 Documents are understated due to the above stated compromise of the Appraiser Defendants'
16 independence.
17

18 237. Disclosure of this information was necessary to make statements made in the Offering
19 Documents that assured certain appraisal standards had been met and that specified LTV ratios for
20 the Certificates, were not misleading.
21

22 **D. All Defendants Violated RCW 21.20.010(3)**

23 238. All of the Defendants systematically engaged in acts, practices and/or a course of
24 business connected to the offer and sale of the Certificates, that uniformly and predictably operated
25 as a deceit upon Plaintiff and Class Members in violation of RCW 21.20.010(3). Such violations
26 sound in negligence and not in fraud.
27
28

1 WaMu Defendants

2 239. All WaMu Defendants systematically and negligently corrupted every aspect of the
3 securitization and sales process associated with the sale of the Certificates by the acts described
4 above; and by their systematic and negligent abandonment, in the course of their business, of
5 accepted standards for (1) underwriting the mortgages underling the Certificates (including the
6 appraisal process); (2) conducting due diligence on the assets of the Issuing Trusts; (3) drafting the
7 Offering Documents; and (4) obtaining independent and valid ratings of credit risks associated with
8 the Certificates.
9

10 240. The undisclosed involvement and influence the WaMu Defendants systematically
11 exercised over the Appraisal Defendants and Ratings Agency Defendants acted to deceive Plaintiff
12 and the Class as to (1) the reliability of material information provided in the Offering Documents;
13 (2) the reliability of WaMu as an issuer and underwriter of mortgaged-back-certificates; and (3) the
14 potential for future disclosure of these facts to negatively impact the value of the Certificates.
15

16 Ratings Agency Defendants

17 241. The Ratings Agency Defendants systematically and negligently corrupted the ratings
18 and securitization process associated with the sale of the Certificates by the acts described above;
19 and their systematic and negligent abandonment in the course of their businesses of accepted
20 procedures and standards for: (1) maintaining independence from the issuers and sellers of the
21 Certificates; (2) conducting due diligence when rating mortgage backed securities; and (3) validating
22 and updating the models used to assess and certify the credit risk associated with the Certificates.
23

24 242. The undisclosed involvement and influence the Ratings Agency Defendants allowed
25 WaMu to exercised over the ratings process acted to deceive Plaintiff and the Class as to the
26 independence of the Ratings Agency Defendants and the reliability of the ratings they certified for
27 the Certificates as well as the potential for future disclosure of these facts to negatively impact the
28

1 value of the Certificates.

2 243. The undisclosed defects in, and failure to update or validate, the models the Ratings
3 Agency Defendants used to develop the ratings and their potential to understate the credit risk of the
4 certificates acted to deceive Plaintiff and the Class as to the reliability of the ratings and the level of
5 risk associated with the Certificates as well as the potential for future disclosure of these facts to
6 negatively impact the value of the Certificates.
7

8 The Appraiser Defendants

9 244. The Appraiser Defendants systematically and negligently corrupted the mortgage
10 appraisal process associated with the sale of the Certificates by the acts described above; and their
11 systematic and negligent abandonment in the courses of their business of accepted procedures and
12 standards to maintain their independence from their WaMu customer; and otherwise conduct reliable
13 and USPAP-compliant appraisals.
14

15 245. The undisclosed involvement and influence the Appraiser Defendants allowed WaMu
16 to exercise over the appraisal process in the course of their business acted to deceive Plaintiff and the
17 Class as to the Appraiser Defendants' independence and the reliability of the LTV ratios specified in
18 the Offering Documents as well as the potential for future disclosure of these facts to negatively
19 impact the value of the Certificates.
20

21 **E. Plaintiff and the Class are Entitled to a Presumption of Reliance**

22 246. Plaintiff and the Class did not know and could not reasonably have known the
23 material information regarding and relevant to the Certificates that each Defendant failed to disclose.

24 247. If the material information described above that Defendants omitted from the
25 Offering Documents had been disclosed, the Certificates could not legally have been offered for sale.
26 As such, the simple fact that Plaintiff and the Class purchased the Certificates is evidence of their
27 reliance on material omissions.
28

1 248. If the material information described above that Defendants omitted from the
2 Offering Documents had been disclosed there would have been no market for the Certificates as such
3 disclosures would have revealed the Certificates were an unsuitable investment for any potential
4 investor in securities of this type. In other words, under all the circumstances alleged above, these
5 Certificates had no business being offered or sold as legitimate mortgage-backed-securities.
6

7 249. The market for mortgaged-backed-securities like these Certificates is a highly
8 efficient market. This is evidenced by the rapid downgrading of all the Certificates to junk bond
9 status resulting, not from changes in the overall market, but from (1) the belated disclosure of the
10 material facts omitted at the time of sale; and (2) the unexpected high rate of default on the
11 mortgages underlying the Certificates that was only unexpected primarily because of the material
12 information omitted from the Offering Documents.
13

14 250. Under these circumstances, Plaintiff and the Class are entitled to a presumption that
15 they each reasonably relied on Defendants' omissions and misrepresentations in deciding to
16 purchase the Certificates.

17 **F. All Defendants are Jointly and Severally Liable to Plaintiff and the Class**

18 251. As a result of Defendants' primary violations of the 21.20.010 (2) and (3), each of
19 them are liable to Plaintiff and the Class, jointly and severally, for the relief specified in RCW
20 21.20.430(1) which includes rescission or damages (if rescission is not available), interest and
21 attorneys' fees.
22

23 252. Plaintiff and Class Members have been damaged by Defendants' violations of WSSA
24 because, the false statements and omissions Defendants made at the time of Plaintiff's purchases
25 have since become known to the market and, as a direct result, the value of the Certificates have
26 declined substantially.
27
28

FIFTH CAUSE OF ACTION

**For Violations of the Washington State Securities Act
Secondary/Control Person Liability, RCW § 21.20.430(3)
(Against Individual Defendants and First American)**

253. Plaintiff repeats and realleges each and every allegation above as set forth in full herein.

254. For their Fifth Claim of relief Plaintiff alleges each Defendant against whom this claim is brought is liable as a control person of the Certificates under RCW 21.20.430(3) for each seller's primary violation of 21.20.010(2) and/or(3). These violations of the Washington State Security Act, RCW 20.21 et seq., sound in negligence and not in fraud.

**A. Defendants are Control Persons of a Liable
Seller within the Meaning of RCW 21.20.430(3)**

255. WMAAC and eAppraiseIT are liable sellers under RCW 21.20.430(1).

256. At all relevant times, the Individual Defendants were officers, directors or employees of WMAAC.

257. Alternatively, each named Individual Defendant (1) was an employee of WMAAC and (2) materially aided WMAAC in the offer and sale of the Certificates by signing the Registration Statement, or by, on information and belief, participating in the conduct forming the basis of liability for WMAAC.

258. At all relevant times First American was the owner of eAppraiseIT and exercised or had the power to exercise control over eAppriaisal's wrongful conduct alleged herein.

259. As a results of these Defendants' secondary violations of the 21.20.010 (2) and (3) they are each of them liable to Plaintiff and the Class, jointly and severally, for the relief specified in RCW 21.20.430(1) which includes rescission, damages (if rescission is not available), interest and attorneys' fees.

1 260. Plaintiff and Class Members have been damaged by Defendants' violations of WSSA
2 as described herein.

3 **IX. PRAYER FOR RELIEF**

4 **WHEREFORE**, Plaintiff prays for relief and judgment, as follows:

5 A. An order certifying the proposed plaintiff Class, designating Doral as Lead Plaintiff
6 for the Class, and designating Cohen Milstein Sellers & Toll PLLC as Lead Counsel for the Class.

7 B. An award of statutory, compensatory and/or all exemplary damages allowed by law in
8 favor of Plaintiff and the Class and against all Defendants, jointly and severally, in an amount to be
9 proven at trial, including interest thereon;

10 C. An award of rescission or a rescissory measure of damages;

11 D. An award of Plaintiff reasonable attorneys' fees and, costs as allowed by law;

12 E. An award of pre- and post-judgment interest as allowed by law;

13 F. An order granting Plaintiff and the Class leave to amend the Complaint to conform to
14 the evidence produced at trial; and

15 G. An award of such additional equitable, injunctive or other relief as the Court deems
16 appropriate.

JURY DEMAND

Plaintiff hereby demands a trial by jury.

Dated: December 31, 2009

Respectfully submitted,

TOUSLEY BRAIN STEPHENS PLLC

By: /s/Kim D. Stephens

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Counsel for Plaintiff and the Proposed Class

CERTIFICATE OF SERVICE

I hereby certify that on the 31st day of December, 2009, I electronically filed the foregoing with the Clerk of the Court using the CM/ECF system which will send notification of such filing to counsel of record for all parties who have appeared in the action. Hard copies of the within will also be served upon all parties who will not receive notification via the CM/ECF System.

DATED this 31st day of December, 2009 at Seattle, Washington.

By: /s/
Carol Bonafaci
1700 Seventh Avenue, Suite 2200
Seattle, Washington 98101
Telephone: (206) 682-5600